TBC BANK GROUP PLC

2Q AND 1H 2020 FINANCIAL RESULTS

www.tbcbankgroup.com

TBC BANK
Group PLC

TBC BANK GROUP PLC (“TBC Bank”)
2Q AND 1H 2020 UNAUDITED CONSOLIDATED FINANCIAL RESULTS

Forward-Looking Statements

This document contains forward-looking statements; such forward-looking statements contain known and unknown risks, uncertainties and other important factors, which may cause the actual results, performance or achievements of TBC Bank Group PLC (“the Bank” or the “Group”) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are based on numerous assumptions regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. Important factors that, in the view of the Bank, could cause actual results to differ materially from those discussed in the forward-looking statements include, among others, the achievement of anticipated levels of profitability, growth, cost and recent acquisitions, the impact of competitive pricing, the ability to obtain necessary regulatory approvals and licenses, the impact of developments in the Georgian economic,the impact of COVID-19, the political and legal environment, financial risk management and the impact of general business and global economic conditions.

None of the future projections, expectations, estimates or prospects in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects are based are accurate or exhaustive or, in the case of the assumptions, entirely covered in the document. These forward-looking statements speak only as of the date they are made, and subject to compliance with applicable law and regulation the Bank expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in the document to reflect actual results, changes in assumptions or changes in factors affecting those statements.

Certain financial information contained in this presentation, which is prepared on the basis of the Group’s accounting policies applied consistently from year to year, has been extracted from the Group’s unaudited management’s accounts and financial statements. The areas in which the management’s accounts might differ from the International Financial Reporting Standards and/or U.S. generally accepted accounting principles could be significant; you should consult your own professional advisors and/or conduct your own due diligence for a complete and detailed understanding of such differences and any implications they might have on the relevant financial information contained in this presentation. Some numerical figures included in this report have been subjected to rounding adjustments. Accordingly, the numerical figures shown as totals in certain tables might not be an arithmetic aggregation of the figures that preceded them.

Second Quarter and First Half of 2020 Unaudited Consolidated Financial Results Conference Call

TBC Bank Group PLC ("TBC PLC") publishes its unaudited consolidated financial results for the second quarter and half year of 2020 on Tuesday, 18 August 2020 at 7.00 am BST (10.00 am GET), while the results call will be held at 14.00 (BST) / 15.00 (CEST) / 9.00 (EST).

Please click the link below to join the webinar:
https://tbc.zoom.us/j/92746432667?pwd=bUs5SnRxeWp3Q3Y2V3NwMElZUmVIUT09

Webinar ID: **927 4643 2667**
Password: **424396**

Or use the following dial-ins:

- **Georgia**: +995 7067 77954 or +995 3224 73988 or 800 100 293 (Toll Free)
- **Russian Federation:** 8800 301 7427 (Toll Free) or 8800 100 6938 (Toll Free)
- **United Kingdom:** 0 800 260 5801 (Toll Free) or 0 800 358 2817 (Toll Free) or 0 800 031 5717 (Toll Free)
- **US:** 833 548 0282 (Toll Free) or 877 853 5257 (Toll Free) or 888 475 4499 (Toll Free) or 833 548 0276 (Toll Free)

Webinar ID: **927 4643 2667#**, please dial the ID number slowly

Other international numbers available at: https://tbc.zoom.us/u/afRUs7Io5

The call will be held in two parts. The first part will be comprised of presentations and during the second part of the call, you will have the opportunity to ask questions. All participants will be muted throughout the webinar.

Webinar Instructions:

For those participants who will be joining through the webinar, in order to ask questions, please use the "hand icon" that you will see at the bottom of the screen. The host will unmute those participants who have raised hands one after another. After the question is asked, the participant will be muted again.

Call Instructions

For those participants who will be using the dial in number to join the webinar, please dial *9 to raise your hand.

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2Q AND 1H 2020 Results Announcement

TBC Bank Group PLC ("TBC Bank")

TBC Bank Announces Unaudited 2Q and 1H 2020 Consolidated Financial Results

European Union Market Abuse Regulation EU 596/2014 requires TBC Bank Group PLC to disclose that this announcement contains Inside Information, as defined in that Regulation.

The information in this announcement, which was approved by the Board of Directors on 17 August 2020, does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019, which contained an unmodified audit report under Section 495 of the Companies Act 2006 (which did not make any statements under Section 498 of the Companies Act 2006) have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

TBC Bank – Background

TBC Bank is the largest banking group in Georgia, where 99.6% of its business is concentrated, with a 38.5% market share by total assets. It offers retail, corporate, and MSME banking nationwide.

These unaudited financial results are presented for TBC Bank Group PLC ("TBC Bank" or "the Group"), which was incorporated on 26 February 2016 as the ultimate holding company for JSC TBC Bank Georgia. TBC Bank became the parent company of JSC TBC Bank Georgia on 10 August 2016, following the Group's restructuring. As this was a common ownership transaction, the results have been presented as if the Group existed at the earliest comparative date as allowed under the International Financial Reporting Standards ("IFRS"), as adopted by the European Union. TBC Bank successfully listed on the London Stock Exchange's premium listing segment on 10 August 2016.

TBC Bank Group PLC's financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS.

Please note that there is an important update set out in paragraph 9 of the Material Existing and Emerging Risks section on page 49.

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 1Q 2020 and 2019, while no material impact was recorded in the income statement.

Financial Highlights

In the first half 2020, our financial results were affected by the following non-recurring charges related to the COVID-19 pandemic:

- a net modification loss of financial instruments, in the amount of GEL 34.2 million (out of which GEL 30.6 million was accounted for in the first quarter and GEL 3.5 million in the second quarter) to reflect the decrease in the present value of cash-flows resulting from the loan repayment grace periods granted to borrowers; and
- an extra credit loss allowance booked in the first quarter, in the amount of GEL 215.7 million (or GEL 210.9 million for loans), to prepare for the potential impact of the COVID-19 pandemic on our borrowers. In the second quarter, we also created additional GEL 9.0 million COVID-19 related credit loss allowances for loans in our Azeri subsidiary, TBC Kredit. These charges resulted in additional COVID-19 related, not annulized cost of risk in the amount of 1.7% in 2Q and 1H 2020.
- Without the above mentioned COVID-19 related charges, ROE and ROA amounted to 19.6% and 2.8% respectively in 2Q 2020, while in 1H 2020, ROE and ROA stood at 21.2% and 3.0% respectively.

The financial performance measures presented in this report show our reported figures only, while the impact of the above mentioned COVID-19 related, non-recurring charges is discussed in our 2Q financial results presentation available at our Investor Relations website at www.tbcbankgroup.com under the Results Announcement section.

2Q 2020 P&L Highlights

- Profit for the period amounted to GEL 126.2 million (2Q 2019: GEL 120.2 million)
- Return on average equity (ROE) stood at 19.5% (2Q 2019: 21.1%[1])
- Return on average assets (ROA) stood at 2.6% (2Q 2019: 3.0%[1])
- Cost to income of TBC Bank Group PLC stood at 38.5% (2Q 2019: 40.2%)
- Standalone cost to income ratio of the Bank[2] was 32.3% (2Q 2019: 35.2%)
- Cost of risk stood at 0.0%[3] (2Q 2019: 1.1%)
- Net interest margin (NIM) stood at 4.3% (2Q 2019: 5.8%)

1H 2020 P&L Highlights

- Profit for the period amounted to GEL 69.2 million (1H 2019: GEL 253.5 million)
- Return on average equity (ROE) stood at 5.2% (1H 2019: 22.8%[4])
- Return on average assets (ROA) stood at 0.7% (1H 2019: 3.3%[4])
- Cost to income of TBC Bank Group PLC stood at 37.4% (1H 2019: 38.9%)
- Standalone cost to income ratio of the Bank[2] was 31.9% (1H 2019: 35.7%)
- Cost of risk stood at 2.1%[5] (1H 2019: 1.3%)
- Net interest margin (NIM) stood at 4.7% (1H 2019: 6.0%)

Balance Sheet Highlights as of 30 June 2020

- Total assets amounted to GEL 19,813.4 million, up by 15.0% YoY
- Gross loans and advances to customers stood at GEL 13,635.4 million, up by 22.4% YoY or at 18.1% on a constant currency basis
- Net loans to deposits + IFI[6] funding stood at 105.3%, up by 13.9 pp YoY, and Regulatory Net Stable Funding Ratio (NSFR), effective from 30 September 2019, stood at 127.5%
- NPLs were 2.9%, down by 0.2 pp YoY
- NPLs coverage ratios stood at 134.7%, or 246.7% with collateral, on 30 June 2020 compared to 97.9% or 206.0% with collateral, as of 30 June 2019
- Total customer deposits amounted to GEL 10,420.3 million, up by 5.5% YoY or at 1.4% on constant currency basis
- The Bank's Basel III CET 1, Tier 1 and Total Capital Adequacy Ratios per NBG methodology stood at 10.0% 12.7% and 17.2% respectively, while minimum eased regulatory requirements amounted to of 6.9%, 8.7%, and 13.3%, respectively.

Market Shares as of June 2020[7]

- Market share by total assets reached 38.5%, down by 0.6 pp YoY
- Market share by total loans was 39.5%, up by 1.0 pp YoY
- Market share of total deposits reached 37.1%, down by 3.9 pp YoY

2Q 2020 operating highlights

- The number of affluent customers reached 91.0 thousand as of 30 June 2020, up by 173% YoY
- 96% of all transactions were conducted through digital channels (2Q 2019: 93%)
- The penetration ratio for internet or mobile banking[8] stood at 48% for 2Q 2020 (2Q 2019: 44%)
- The penetration ratio for mobile banking[9] stood at 45% for 2Q 2020 (2Q 2019: 39%)

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[1] Prior to change in PPE accounting policy from revaluation model to cost method, ROE stood at 20.7% , while ROA remained unchanged in 2Q 2019
[2] For the ratio calculation all relevant group recurring costs are allocated to the Bank
[3] This ratio includes COVID-19 related TBC Kredit credit loss allowances for loans, in the amount of GEL 9.0 million, which given its non-recurring nature was not annualized
[4] Prior to change in PPE accounting policy from revaluation model to cost method, ROE stood at 22.3%, while ROA remained unchanged in 1H 2019
[5] This ratio includes COVID-19 related credit loss allowances for loans, in the amount of GEL 219.9 million, which given its non-recurring nature was not annualized
[6] International Financial Institutions
[7] 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.
[8] Internet or Mobile Banking penetration equals the number of active clients of Internet or Mobile Banking divided by the total number of active clients. Data includes Space figures
[9] Mobile Banking penetration equals the number of active clients of Mobile Banking divided by the number of total active clients. Data includes Space figures

Income Statement Highlights

in thousands of GEL	2Q'20	2Q'19	Change YoY	1H'20	1H'19	Change YoY
Net interest income	184,365	197,448	-6.6%	392,324	398,586	-1.6%
Net fee and commission income	39,517	43,534	-9.2%	83,069	85,341	-2.7%
Other operating non-interest income[10]	26,161	31,320	-16.5%	64,905	60,321	7.6%
Credit loss allowance	(11,314)	(33,372)	-66.1%	(259,051)	(66,467)	NMF
Operating income after credit loss allowance	**238,729**	**238,930**	**-0.1%**	**281,247**	**477,781**	**-41.1%**
Losses from modifications of financial instrument	**(3,527)**	**-**	**NMF**	**(34,170)**	**-**	**NMF**
Operating expenses	(96,331)	(109,383)	-11.9%	(202,160)	(211,897)	-4.6%
Profit before tax	**138,871**	**129,547**	**7.2%**	**44,917**	**265,884**	**-83.1%**
Income tax expense	(12,665)	(9,329)	35.8%	24,283	(12,344)	NMF
Profit for the period	**126,206**	**120,218**	**5.0%**	**69,200**	**253,540**	**-72.7%**

Balance Sheet and Capital Highlights	Jun-20	Jun-19	*Change YoY*
in thousands of GEL			
Total Assets	19,813,429	17,227,131*	15.0%
Gross Loans	13,635,392	11,141,360	22.4%
Customer Deposits	10,420,330	9,876,813	5.5%
Total Equity	2,653,405	2,320,217*	14.4%
Regulatory Common Equity Tier I Capital (Basel III)	1,631,006	1,678,050	-2.8%
Regulatory Tier I Capital (Basel III)	2,068,052	1,730,302	19.5%
Regulatory Total Capital (Basel III)	2,787,136	2,430,135	14.7%
Regulatory Risk Weighted Assets (Basel III)	16,249,475	13,986,201	16.2%

** Certain amounts do not correspond to the 2019 consolidated financial statement as they reflect the change in accounting policy for PPE from revaluation model to cost method in 2Q 2020.*

Key Ratios	2Q'20	2Q'19	Change YoY	1H'20	1H'19	Change YoY
ROE	19.5%	21.1%*	-1.6 pp	5.2%	22.8%*	-17.6 pp
ROA	2.6%	3.0%*	-0.4 pp	0.7%	3.3%*	-2.6 pp
NIM	4.3%	5.8%	-1.5 pp	4.7%	6.0%	-1.3 pp
Cost to income	38.5%	40.2%	-1.7 pp	37.4%	38.9%	-1.5 pp
Standalone cost to income of the Bank[11]	32.3%	35.2%	-2.9 pp	31.9%	35.7%	-3.8 pp
Cost of risk	0.0%**	1.1%	-1.1 pp	2.1%***	1.3%	0.8 pp
NPL to gross loans	2.9%	3.1%	-0.2 pp	2.9%	3.1%	-0.2 pp
NPLs coverage ratio exc. collateral	134.7%	97.9%	36.8 pp	134.7%	97.9%	36.8 pp
CET 1 CAR (Basel III)	10.0%	12.0%	-2.0 pp	10.0%	12.0%	-2.0 pp
Regulatory Tier 1 CAR (Basel III)	12.7%	12.4%	0.3 pp	12.7%	12.4%	0.3 pp
Regulatory Total CAR (Basel III)	17.2%	17.4%	-0.2 pp	17.2%	17.4%	-0.2 pp
Leverage (Times)	7.5x	7.4x****	0.1x	7.5x	7.4x****	0.1x

** Prior to change in PPE accounting policy from revaluation model to cost method, ROE stood at 20.7% and 22.3% for 2Q 2019 and 1H 2019, respectively, while ROA remained unchanged for both periods*

*** Ratio includes COVID-19 related TBC Kredit credit loss allowances for loans, in the amount of GEL 9.0 million, which given its non-recurring nature was not annualized*

****Ratio includes COVID-19 related credit loss allowances for loans, in the amount of GEL 219.9 million, which given its non-recurring nature was not annualized*

***** Prior to change in PPE accounting policy from revaluation model to cost method, Leverage stood at 7.3x for 2Q 2019 and 1H 2019*

[10] Other operating non-interest income includes net insurance premium earned after claims and acquisition costs.

[11] For the ratio calculation, all relevant group recurring costs are allocated to the bank.

Letter from the Chief Executive Officer

I would like to present our financial and operating results for the second quarter and first half of 2020 and update you on recent economic developments in the country. I am pleased to say that the Georgian economy has started its recovery from the negative impacts of the pandemic and the performance of the group in the second quarter also fills me with confidence.

Georgia continues to manage the COVID-19 crisis effectively. The number of new cases remains very low and Georgia has been recognized by the EU as one of 13 epidemiologically safe countries outside the EU. International flights are expected to resume gradually starting from August, though a substantial recovery in tourism inflows is expected only in 2021. At the same time, remittances increased by 17.8% in June and exports have demonstrated much stronger dynamics than expected. The recovery in the domestic demand also appears strong, judging from the June imports rebound and rapid macro and sector indicators such as the increase in consumer spending and remittances[12]. Based on initial estimates, GDP declined by 7.7% in June, while it dropped by 16.6% and 13.5% in April and May, respectively. For the full year 2020, we maintain our earlier projection of around a 4.5-5.5% contraction of the economy and expect it to mostly recover to pre-crises levels in 2021.

Government policies play an important role in mitigating the impact of the crisis. An updated state budget was approved in June with the 2020 deficit planned at 8.5%, mostly financed by additional external borrowings of about USD 1.6 billion. These additional funding would be sufficient even in case the performance of the economy is worse than assumed in the baseline scenario, part of which would be allocated to create a fiscal buffer of around 5% of GDP.Together with the fiscal stimulus, the monetary and the financial sector supervision policies have also been supportive. The NBG has continued to intervene to stabilize the currency rate during the pandemic. In addition, the NBG gradually cut the monetary policy rate to support GEL lending, while keeping a close eye on the inflation rate in the light of current uncertainties. The confidence in the banking system, as well as increasing capital and liquidity levels, continue to support the recovery.

Resilient financial performance

In the first half 2020, our financial results were affected by the following non-recurring charges related to the COVID-19 pandemic:

- a net modification loss of financial instruments, in the amount of GEL 34.2 million (out of which GEL 30.6 million[13] was accounted for in the first quarter and GEL 3.5 million[14] in the second quarter) to reflect the decrease in the present value of cash-flows resulting from the loan repayment grace periods granted to borrowers; and

- an extra credit loss allowance booked in the first quarter, in the amount of GEL 215.7 million (or GEL 210.9 million for loans), to prepare for the potential impact of the COVID-19 pandemic on our borrowers. In the second quarter, we also created additional GEL 9.0 million COVID- 19 related credit loss allowance in our Azeri subsidiary, TBC Kredit.

Consequently, in the first half 2020, our consolidated net profit stood at GEL 69.2 million. Over the same period, return on equity stood at 5.2% and return on assets stood at 0.7%.

In the second quarter 2020, our consolidated net profit amounted to GEL 126.2 million, up by 5% year-on-year. The growth in net profit was driven by recoveries in credit loss allowances and a reduction in operating expenses, which offset the reduction in operating income resulting from the slowdown in business activities due to the pandemic. Over the same period, we experienced pressure on our net interest margin, which decreased by 0.8pp quarter-on-quarter and stood at 4.3%, mainly due to high liquidity and respective pressure on GEL funding, a decrease in Libor and Fed rates, as well as an increase in the average GEL exchange rate QoQ.

On the positive side, in the second quarter 2020, our cost of risk stood at 0.0%[15] and our cost-to-income ratio amounted to 38.5%, down by 1.7 pp year-on-year due to our increased focus on cost efficiency. Also, the Bank's standalone cost-to-income ratio[16] stood at 32.3% in the second quarter 2020, down by 2.9 pp year-on-year. As a result, our return on equity stood at 19.5% and return on assets stood at 2.6% over the same period.

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[12] See weekly updates in TBC Capital's "Tracking the Recovery" series

[13] For more information, please refer to our press release dated 18 March 2020 at the following link https://otp.tools.investis.com/clients/uk/tbc_bank/rns/regulatory-story.aspx?cid=2168&newsid=1380003

[14] For more information, please refer to our press release dated 21 May 2020 at the following link https://otp.tools.investis.com/clients/uk/tbc_bank/rns/regulatory-story.aspx?cid=2168&newsid=1392389

[15] This ratio includes a GEL 9.0 million COVID- 19 related credit loss allowances in our Azeri subsidiary, TBC Kredit, which given its non-recurring nature has not been annualised

[16] For this ratio calculation purpose, all relevant group recurring costs are allocated to the Bank

In constant currency terms, our loan book remained broadly stable on a quarter-on-quarter basis, growing by 1.9%, while our deposits decreased by 2.6%. As a result, our market share in total loans and total deposits stood at 39.5% and 37.1% respectively as of 30 June 2020.

Our liquidity and capital positions remain strong. As of 30 June 2020, our net stable funding (NSFR) and liquidity coverage ratios (LCR) stood at 128% and 125% respectively. As expected, in the second quarter, we started to generate significant buffers for our capital and our CET1, Tier 1 and total capital ratios increased by 0.5%, 0.8% and 0.9% respectively and stood at 10.0%, 12.7% and 17.2% correspondingly, comfortably above the minimum requirements.

Operating performance and recent developments

Our market leading internet and mobile banking services have proved crucial during the pandemic, allowing our customers to conduct most of their transactions remotely. As a result, the number of internet or mobile banking users increased by 13% YoY and reached 633,000[17], leading to a 48% penetration level.

In terms of our strategic progress, I am delighted to inform you that on 29 June 2020, we launched our banking operation in Uzbekistan, initially in a pilot mode for "friends and family", and plan to extend our services to the broader population in fall 2020. In line with our asset-light and highly digitalized strategy, we will be serving our customers mainly through our online platform, Space, while our smart, next generation branches will be used primarily for client relationship purposes. The first pilot branch has already opened.

I am also delighted to inform you that as a testimony to our commitment towards the highest standards of corporate social responsibility, TBC Bank became a member of the FTSE4Good Index Series[18] in June 2020. In addition, TBC Bank has been also rated as low risk in terms of its ESG performance by Sustainalytics[19] based on its most recent review on 4th March 2020.

Furthermore, I would like to inform you about changes in our management board and Board of Directors. Giorgi Shagidze, deputy CEO and CFO and member of the Board of Directors, intends to leave the group at the end of 2020 to explore other opportunities in a different field and/or geography. He will continue to perform his duties until the year-end in order to ensure a smooth transition to his successor. I would like to thank Giorgi for his crucial contribution towards bringing the group to the next level over the past 10 years and wish him success in his future endeavors. I would also like to welcome our new Independent Non-Executive Director, Abhijit Akerkar. 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 with Lloyds Banking Group, McKinsey and Company, and HCL Technologies.

The board also intends to add one more independent non-executive director by the year-end and has commenced a search process to identify suitable candidates. The board intends to use this opportunity to further support diversity at the board level.

Finally, the bank was informed by the founders that they are taking steps to transfer their shares into a blind trust and expect this process to be completed before the year-end.

Outlook

Given the uncertainties associated with the COVID-19 pandemic, our focus in the short-term will be maintaining prudent capital and liquidity positions and, proactively managing asset quality and cost optimization. At the same time, we will concentrate our efforts on supporting existing customers to withstand the negative impacts of COVID-19 rather than the acquisition of new clients.

In the medium term (3 to 5 years), we remain committed to our guidance: ROE of above 20%, a cost to income ratio below 35%, a dividend payout ratio of 25-35% and loan book growth of around 10-15%.

I would like to finish my letter by expressing a deep appreciation to every single employee of the TBC Group for carrying on with their duties with professionalism and outstanding commitment during these challenging times.

[17] Including Space users

[18] FTSE4Good is a global sustainable investment index series, designed to identify companies that demonstrate strong Environmental, Social and Governance (ESG) practices measured against international standards

[19] Sustainalytics is a global leader in ESG and Corporate Governance research and ratings

Supporting stakeholders

Our stakeholders
TBC responded promptly to the spread of COVID-19 in its early stages by developing an anti-crisis plan for both employees and customers as well as extending its support to the community at large, while ensuring the financial stability of the Group, as discussed in the CEO letter.

Supporting our colleagues
First of all, for our front-offices staff, we have introduced appropriate social distancing and infection prevention measures

We also managed to change our operating model swiftly and started to move our back-office employees to remote working practices from mid-March. Already by the end of April, 95% of our back office-employees were working remotely. This turned out to be very effective, leading to increase in efficiency levels, creativity and employee happiness. We intend to extend this flexible working arrangement post pandemic whereby the majority of our staff can choose remote working.

We feel a responsibility towards the well-being of each of our 7,800 employees and therefore we have made a decision not to make any redundancies during this year. However, in order to keep our costs under control, senior management decided to forgo their entire bonuses for 2020 and LTIP grants for the 2020 cycle and also to reduce the bonuses of middle and back-office managers by 50% and 30%, respectively.

Supporting our customers
We have promptly mobilized all our efforts to provide full support to our customers and help them recover from the negative impacts of the COVID-19 pandemic. In this regard, with close cooperation with the National Bank of Georgia and the government, we have implemented the following initiatives:

- In March, we introduced a three-month grace period on principal and interest payments for individual and MSME customers as well as those corporate customers who are most affected by the current situation. The take-up rate per segments was as follows: 32%-corporate, 59%-MSME and 77%-retail;
- In addition, starting from June 10th, we extended the grace period for a further three months to our most vulnerable retail and micro customers, based on specific qualification criteria. The take-up rate per segments was as follows: 5%-corporate, 24%-MSME and 29%-retail;
- Since April, we have been actively participating in the government's support programme for MSME hotels, which envisages subsidies for 70-80% of interest on loans issued before 1st March 2020 for 6 months, based on certain criteria. In May, this programme was extended to large hotels as well. By the end of July, we have already received subsidies for around 265 loans, with a total outstanding loan amount of GEL 44 million.
- Since second half of July, the Bank is also participating in the government loan guarantee programme, which envisages supporting certain businesses, which do not have sufficient collateral for a loan or do not meet some other underwriting criteria. Under this programme, the government will guarantee the repayment of 90% of the principal amount in case of a new loan, and 30% in case of a restructured loan. A total of GEL 300 million has been allocated by the government to this programme; according to our estimates, 34% of this amount could be utilized by TBC Bank. By the end of July, we have received guarantees for 8 loans, with a total amount of GEL 6 million.
- From beginning of July, we started issuing loans under government support programmes for developers allowing customers to get a 4% interest subsidy or receive a 20% guarantee (in case of minimum 10% participation from the borrower side) for purchasing new apartments under GEL 200,000 for a duration of 5 years. By the end of July, we have disbursed around 283 such loans with a total amount of GEL 27 million.

Furthermore, we have provided additional incentives to our customers to use our market-leading digital banking platform, such as a temporary waiver of fees on money transfers and utilities payments in internet and mobile banking.

Supporting our communities

In order to support the Georgian population and reduce the damage caused by COVID-19, we have launched a special programme called #TBCforyou. Within the scope of this programme, we have undertaken several projects, including the following:

- More than 1,000 elderly people living in the capital and regions received food, medicine and other safety items;
- TBC has purchased 10,000 COVID-19 rapid tests and handed them over to the Ministry of Health;
- TBC has purchased laptops for 161 socially vulnerable students at six universities as well as for 100 socially vulnerable senior-grade students residing in different regions of Georgia. TBC will also cover their monthly internet fee until the end of the school year;
- TBC and VISA have launched a new initiative for companies called "Create your own online store", which helps companies to create their online store in a short period of time;
- A special platform was launched to allow people to support their favorite Georgian company by transferring money in return for a voucher, which they would be able to redeem once the business could operate normally.

Economic Overview

Economic growth
Real GDP increased by 2.2% in the first quarter of 2020, already reflecting the economic damage caused by the spread of COVID-19 globally, though maintaining the positive dynamics carried over from the strong growth in 2019 (5.1% YoY). Thereafter, as strict mobility restrictions were introduced, the economy contracted by 16.6% in April, 13.5% in May and 7.7% in June. Accordingly, the Georgian economy dropped by 5.8% in the first half months of 2020 YoY. All sectors of the economy registered declines as the economy continued to operate under the strict mobility restrictions during for most of May. The smaller decrease in GDP in June compared to the previous two months is attributable to the removal of most of the restrictions starting from the end of May. As most of the sectors have been allowed to reopen in June, the annual GDP decline should continue to moderate going forward. According to TBC Capital estimates, in the baseline scenario the GDP drop is expected to be 4.5-5.5% before recovering by 4.0-5.0% in 2021. So far, the actual numbers remain broadly consistent with TBC Capital projections.

External sector
The tourism industry has been hit the hardest as tourism inflows went down by an estimated 96.7% YoY in 2Q 2020, following a 26.1% drop in 1Q 2020. Regular flights remain halted and will only gradually start to recover in August. Epidemiological developments in neighboring countries, which make up almost half of the total tourism revenues, also remain challenging. Much of 2020 is likely to be lost for the tourism industry, with domestic tourism compensating for only a fraction of the loss. On the other hand, Georgia maintains an image of being a safe destination as the spread of COVID-19 is at very low levels. This, together with its proven potential as an attractive tourism destination, should help the country to regain its position relatively quickly once the virus is contained.

The spread of COVID-19 and related restrictions have translated into a sharp adjustment of external trade in 2Q 2020, with exports of goods down by 24.8% YoY and imports by 32.8% YoY. The decline of exports moderated to 14.0% YoY in June from a 31.3% YoY decline in May 2020. The fall in imports also softened to 17.2% YoY (-36.8% YoY in May). Despite a continued improvement in the balance of trade in goods, the rate of improvement is starting to worsen as the recovery of domestic demand is quite strong. At the same time, stronger than expected performance in the remittance inflows is observed. Specifically, remittance inflows fell by 10.9% YoY in 2Q 2020, reflecting limited economic activity in most remitting countries. However, a recovery within the quarter was apparent as it moved from a low point of -42.3% YoY in April 2020 to strong growth of 17.6% in June 2020, though some of the recovery in digital transfers could be due to the restrictions of physical travel.

FDI inflows in Georgia shrank by -41.7% YoY to USD 165.4 million in 1Q 2020, with the decline attributable to uncertainties related to COVID-19 along with one-off factors such as the completion of a BP pipeline project and transferring company ownerships from non-resident to resident units. The reinvestment of earnings made up slightly more than 80% of total FDI inflows, while debt and equity inflows shrank dramatically compared to the same period in the previous year.

The current account balance to GDP ratio stood at -11.0% in 1Q 2020, down 4.1 PP YoY. The widening CA deficit mostly reflects the worsened trade balance in goods (from -20.8% of GDP to -23.4% of GDP) as well as a lower surplus in services trade (from 9.7% of GDP to 6.6% of GDP), mostly on the back of declined tourism inflows. Current transfers somewhat improved, while the income account widened moderately. On the financing side, net FDI inflows almost halved from 6.4% of GDP in 1Q 2019 to 3.3% of GDP in 1Q 2020. At the same time, NBG selling reserves (2.6% of GDP) and other borrowings attracted mostly by commercial banks covered higher the CA deficit in 1Q 2020.

Fiscal stimulus
Key budget parameters were revised substantially to accommodate a stimulus package to support the economy amid the COVID-19 related fallout. The budget deficit is currently projected at 8.5% of GDP for 2020, mostly to be financed by the additional external borrowing amounting to USD 1.6 billion. Higher spending will be diverted to both social spending as well as to support crisis-affected sectors. More importantly, secured funding is enough to finance the increased budget deficit, as well as to create a buffer of GEL 2.7 billion (5.4% of GDP), which will be available in case of further deterioration of the macro scenario, compared with the baseline one.

Credit growth

Bank credit growth also moderated to 13.9% YoY on FX adjusted terms as of June 2020, compared to 17.1% YoY growth by the end of 1Q 2020. In terms of the segments, corporate lending slowed to 22.6% from the 28.7% YoY growth registered in March 2020, while MSME lending also weakened to 14.1% YoY compared to 17.1% YoY in March. At the same time, retail lending, with 7.1% YoY growth by the end of 2Q 2020, remained relatively stable as weakening in the mortgage lending was partly offset by improving growth in non-mortgage loans. The latest indicators point to a recovery in mortgage credit, which was also supported by the relevant state housing stimulus package. However, on QoQ basis the growth was limited as expected.

Inflation, monetary policy and the exchange rate

Following an uptick in inflation in April and May 2020, mostly reflecting the increase of food prices, annual inflation retreated to 6.1% in June 2020 on the back of monthly decline of food prices as well as a continued fall in energy inflation. On the other hand, core inflation, the gauge of prices excluding energy and food, continued to accelerate to 6.6% YoY in June, compared to 3.7% YoY in March 2020. It is likely that the lagged effects of the undervalued exchange rate, coupled with the additional cost of companies related to the COVID-19 restrictions, are putting upward pressure on inflation. Despite some likely short-term effects of increasing costs, annual inflation is expected to continue to decline, reflecting the relative stability of the effective exchange rate, downward pressure from lower aggregate demand and the high base effects from the previous year. While commodity prices eased inflation pressures in the previous months, the effect going forward may reverse due to the solid recovery in oil and a number of other key commodity prices.

The NBG continued to ease monetary policy and delivered a 1.0 pp rate cut year-to-date, bringing the policy rate to 8.0% compared to 9.0% by the end of 2019. Despite still considerable uncertainties surrounding developments in aggregate demand, per the latest NBG projections, inflation is expected to decline towards the target rate of 3% in the first half of 2021.

As of the end of June 2020, the USD/GEL exchange rate of GEL depreciated by 17.0% YoY, while the EUR/GEL exchange rate depreciated by 5.5% YoY. The real effective exchange rate (REER) of the GEL weakened by 2.1% YoY in June 2020 while it appreciated by 1.4% MoM. The GEL REER likely remains undervalued from the medium as well as from the long-term perspective. NBG actively intervenes in the FX market to largely compensate the shortage of inflows. As of the end of July, NBG sold USD 270 million via the FX interventions (additional USD 11.5 million was sold on the interbank market without FX auctions in the first half of the year). NBG's International reserves, coupled with additional external borrowings in the amount of USD 1.6 billion as mentioned above, are expected to be sufficient to continue to supply FX to the market.

Going forward

According to the World Bank's Global Economic Prospects, which were updated in June 2020[20], the Georgian economy is expected to drop by 4.8% in 2020 and recover by 4% in 2021, which is broadly consistent with TBC Capital's projection of a 4.5-5.5% decline and a 4.0-5.0% recovery. Nevertheless, risks to the outlook remain considerable, but are likely mostly in the short term rather than the medium term. Once the virus is contained, the Georgian economy is likely to return to its trend growth rate of around 5.2%, as also indicated by the IMF's medium term projections[21]. Also, Georgia is well placed to benefit from some emerging opportunities related to potential changes in the structure of global supply chains as well as the increased tendency of teleworking.

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

[20] World Bank. 2020. Global Economic Prospects, June 2020

[21] IMF country report, May 2020

Unaudited Consolidated Financial Results Overview for 2Q 2020

This statement provides a summary of the unaudited business and financial trends for 2Q 2020 for TBC Bank Group plc and its subsidiaries. The quarterly financial information and trends are unaudited.

TBC Bank Group PLC financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS.

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 1Q 2020 and 2019, while no material impact was recorded in the income statement.

Net Interest Income

In 2Q 2020, net interest income amounted to GEL 184.4 million, down by 6.6% YoY and 11.3% on a QoQ basis.

The YoY increase in interest income by GEL 52.8 million or 15.5% was primarily related to an increase in interest income from loans, which was driven by an increase in the gross loan portfolio of GEL 2,494.0 million, or 22.4%. This was partially offset by a 1.3 pp drop in loan yields across all segments, mainly related to decrease in Libor rate, currency devaluation, change in segment mix towards corporate, as well as competition.

Over the same period, interest expense increased by GEL 62.9 million, or 42.0%, mainly driven by an increase in interest expense from Senior and AT1 Bonds issued in June and July 2019, respectively in the total amount of US$ 425 million, as well as an increase in the average balance of the NBG loan. Overall, the GEL cost of funding increased by 1.5 pp YoY mainly driven by an increase in the refinance rate as well as increased cost of GEL deposits. Over the same period, FC cost of funding remained unchanged despite the decrease in Libor rate, which was offset by cost of debt securities issued, as mentioned above.

The slight decrease in interest income on a QoQ basis by GEL 1.7 million or 0.4% was mainly triggered by a decrease in income from mandatory reserves placed at NBG due to the drop in the Federal funds rate. This decrease was partially offset by the increase in interest income from investment securities, in line with a growth in the respective portfolio of GEL 367.0 million or 17.9% over the same period.

QoQ interest expense increased by GEL 17.3 million, or 8.9%, which was primarily driven by increase in the interest expense on GEL borrowed funds from the NBG, related to an increase in the respective average balance mainly due to the change in GEL funding sources. This increase more than offset by the decrease in the refinance rate. The FC cost of funding remained unchanged despite a decrease in Libor rate, which was offset by a slight change in liability structure towards IFI funding.

Since 4Q 2019, we have re-classified net gains from currency swaps from other operating income to net interest income. In 2Q 2020, our net gains from currency swaps decreased by 43.1% YoY and 53.7% on a QoQ basis driven by the decline in the interest rate spread on the international markets, due to a decline in federal funds rate. More information about the re-classification is given in annex 3 on page 40.

In 2Q 2020, our NIM stood at 4.3%, down by 1.5 pp YoY and 0.8 pp on a QoQ basis.

In thousands of GEL	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Interest income	393,114	394,779	340,301	15.5%	-0.4%
Interest expense	(212,714)	(195,377)	(149,820)	42.0%	8.9%
Net gains from currency swaps	3,965	8,557	6,967	-43.1%	-53.7%
Net interest income	**184,365**	**207,959**	**197,448**	**-6.6%**	**-11.3%**
NIM	**4.3%**	**5.1%**	**5.8%**	**-1.5 pp**	**-0.8 pp**

Net fee and commission income

In 2Q 2020, net fee and commission income totalled GEL 39.5 million, down by 9.2% YoY and 9.3% QoQ.

The YoY decrease was mainly related to a reduction in other net fee and commission income due to a decrease in cash transactions, as well as a decline in net fee and commission income from card operations, on the back of the slow-down of economic activity due to the COVID-19 pandemic. Furthermore, starting from 4Q 2019 we reclassified certain fees from our Uzbek subsidiary Payme (Inspired LLC) from other sub-category to settlement transactions, in the amount of GEL 3.6 million in 2Q 2020. The decrease was partially offset by an increase in guarantees issued and letters of credit due to an increase in the respective portfolio.

On a QoQ basis, all major categories decreased due to the slowdown in business activities related to the COVID-19 pandemic. This effect was slightly offset by an increase in guarantees issued and letters of credit, due to increase in average portfolio.

In thousands of GEL	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Net fee and commission income					
Card operations	10,962	12,540	11,773	-6.9%	-12.6%
Settlement transactions	18,169	19,843	15,118	20.2%	-8.4%
Guarantees issued and letters of credit	9,498	8,421	7,155	32.7%	12.8%
Other	888	2,748	9,488	-90.6%	-67.7%
Total net fee and commission income	**39,517**	**43,552**	**43,534**	**-9.2%**	**-9.3%**

Other Non-Interest Income

Total other non-interest income decreased by 16.5% YoY and 32.5% QoQ, amounting to GEL 26.2 million in 2Q 2020.

Both the YoY and QoQ decreases were mainly related to a decline in net income from foreign currency operations. The former decrease was mainly attributable to the reduced scale of FX transactions across all segments, as a result of lower economic activities, as well as the reduced margin due to lower volatility.

Net insurance premium earned after claims and acquisition costs increased by 26.3% YoY, mainly related to the overall increase in the scale of the insurance business as well as decrease in claims during the lock-down period related to COVID-19 pandemic. More information about TBC insurance can be found in Annex 4 on page 41.

In thousands of GEL	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Other non-interest income					
Net income from foreign currency operations	19,137	28,642	23,167	-17.4%	-33.2%
Net insurance premium earned after claims and acquisition costs[22]	5,481	4,800	4,338	26.3%	14.2%
Other operating income	1,543	5,302	3,815	-59.6%	-70.9%
Total other non-interest income	**26,161**	**38,744**	**31,320**	**-16.5%**	**-32.5%**

Credit Loss Allowance

Credit loss allowance for loans in 1Q 2020 amounted to GEL 241.0 million, out of which GEL 210.9 million was COVID-19 related as disused on page 5. The largest impact comes from the retail segment, followed by the MSME. In 2Q 2020, total credit loss allowance was mainly driven by MSME and corporate segments, which was offset by recovery of provisions in retail segment. In addition, 2Q credit loss allowances includes COVID-19 related TBC Kredit credit loss allowances for loans in the amount of GEL 9.0 million.

In thousands of GEL	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Credit loss allowance for loan to customers	(8,191)	(241,025)	(30,067)	-72.8%	-96.6%
Credit loss allowance for other transactions	(3,123)	(6,712)	(3,305)	-5.5%	-53.5%
Total credit loss allowance	**(11,314)**	**(247,737)**	**(33,372)**	**-66.1%**	**-95.4%**
Operating income after credit loss allowance	**238,729**	**42,518**	**238,930**	**-0.1%**	**NMF**
Cost of risk	**0.0%***	**2.6%****	**1.1%**	**-1.1 pp**	**-2.6 pp**

** Ratio includes COVID-19 related TBC Kredit credit loss allowances for loans, in the amount of GEL 9.0 million, which given its non-recurring nature was not annualized*
*** Ratio includes COVID-19 related credit loss allowances for loans, in the amount of GEL 210.9 million, which given its non-recurring nature was not annualized*
NMF – no meaningful figures

Operating Expenses

In 2Q 2020, we continue to implement cost efficiency across all levels. As a result, in 2Q 2020 our operating expenses decreased by 11.9% YoY and 9.0% QoQ. The reduction was mainly related to decrease in administrative and other expenses due to the COVID-19 effects and included discretionary administrative expenses such as advertising, marketing and consultation services as well as the impact from renegotiated rent expenses per IFRS 16 in the amount of GEL 4.2 million.

As a result, in 2Q 2020, our cost to income ratio stood at 38.5%, down by 1.7 pp YoY and up by 2.0 pp QoQ, while our standalone cost to income stood at 32.3% down by 2.9 pp YoY and up by 0.8 pp on a QoQ basis.

[22] Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit (as shown in Annex 4 on page 41) 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.

In thousands of GEL	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Operating expenses					
Staff costs	(57,204)	(56,802)	(58,886)	-2.9%	0.7%
Provisions for liabilities and charges	(59)	136	1,241	NMF	NMF
Depreciation and amortization	(16,427)	(15,788)	(15,955)	3.0%	4.0%
Administrative & other operating expenses	(22,641)	(33,375)	(35,783)	-36.7%	-32.2%
Total operating expenses	**(96,331)**	**(105,829)**	**(109,383)**	-11.9%	-9.0%
Cost to income	**38.5%**	**36.5%**	**40.2%**	**-1.7%**	**2.0 pp**
Standalone Cost to income*	**32.3%**	**31.5%**	**35.2%**	**-2.9 pp**	**0.8 pp**

** For the ratio calculation all relevant group recurring costs are allocated to the bank*
NMF – no meaningful figures

Net Income

In 2Q 2020, we generated GEL 126.2 million in net profit up by 5.0% YoY, mainly due to recoveries in credit loss allowance and a decrease in operating expenses, which were offset by the reduction in operating income due to COVID-19 pandemic.

As a result, our ROE stood at 19.5%, down by 1.6 pp YoY, while ROA stood at 2.6%, down by 0.4 pp YoY.

In thousands of GEL	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Losses from modifications of financial instruments	**(3,527)**	**(30,643)**	**-**	**NMF**	**-88.5%**
Profit before tax	**138,871**	**(93,954)**	**129,547**	**7.2%**	**NMF**
Income tax expense	(12,665)	36,948	(9,329)	35.8%	NMF
Profit for the period	**126,206**	**(57,006)**	**120,218**	**5.0%**	**NMF**
ROE	**19.5%**	**n/a**	**21.1%***	**-1.6 pp**	**NMF**
ROA	**2.6%**	**n/a**	**3.0%***	**-0.4 pp**	**NMF**

**Prior to change in PPE accounting policy from revaluation model to cost method, ROE stood at 20.7% while ROA remained unchanged in 2Q 2019*

Funding and Liquidity

As of 30 June 2020, the total liquidity coverage ratio, as defined by the NBG, was 124.8%, above the 100% limit, while the LCR in GEL and FC stood at 141.0% and 117.3% respectively, above the respective limits of 75% and 100%.

However, in the light of COVID-19 pandemic, starting from May 2019, NBG removed minimum requirement on GEL LCR of 75%, for one year period. Despite ease of requirement, our internal limit of 75% remains unchanged and we continue to operate with high liquidity buffers.

As of 30 June 2020, NSFR stood at 127.5%, compared to the regulatory limit of 100%, effective from September 2019.

	30-Jun-20	31-Mar-20	*Change*
Minimum net stable funding ratio, as defined by the NBG	*100%*	*100%*	*00 pp*
Net stable funding ratio as defined by the NBG	127.5%	124.7%	2.8 pp
Net loans to deposits + IFI funding	105.3%	101.8%	3.5 pp
Leverage (Times)	7.5x	7.9x*	-0.4x
Minimum liquidity ratio, as defined by the NBG	*30.0%*	*30.0%*	*0.0 pp*
Liquidity ratio, as defined by the NBG	39.2%	30.6%	8.6 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	124.8%	107.6%	17.2 pp
LCR in GEL, as defined by the NBG	141.0%	107.0%	34.0 pp
LCR in FC, as defined by the NBG	117.3%	107.8%	9.5 pp

** Prior to change in PPE accounting policy from revaluation model to cost method, Leverage stood at 7.8x as of 31 March 2020*

Regulatory Capital

As expected, in 2Q we started to generate sufficient capital buffers and our CET1, Tier 1 and Total Capital ratios increased by 0.9%, 0.7% and 0.5% respectively QoQ.

In 2Q, CET1 increased by 7.4% QoQ mainly due to net income generation, while Tier1 and Total Capital grew by only 4.0% and 0.7% respectively, since AT1 bonds and subordinated loans are denominated in FX and are thus negatively affected by GEL appreciation.

The QoQ decrease in RWA was mainly driven by the GEL appreciation in 2Q.

In thousands of GEL	30-Jun-20	31-Mar-20	*Change QoQ*
CET 1 Capital	1,631,006	1,518,950	7.4%
Tier 1 Capital	2,068,052	1,987,693	4.0%
Total Capital	2,787,136	2,767,850	0.7%
Total Risk-weighted Exposures	16,249,475	16,604,960	-2.1%
Minimum CET 1 ratio	*6.9%*	*6.9%*	*0.0 pp*
CET 1 Capital adequacy ratio	10.0%	9.1%	0.9 pp
Minimum Tier 1 ratio	*8.7%*	*8.8%*	*-0.1 pp*
Tier 1 Capital adequacy ratio	12.7%	12.0%	0.7 pp
Minimum total capital adequacy ratio	*13.3%*	*13.3%*	*0.0 pp*
Total Capital adequacy ratio	17.2%	16.7%	0.5 pp

Loan Portfolio

As of 30 June 2020, the gross loan portfolio reached GEL 13,635.4 million, down by 2.1% QoQ or up by 1.9% at a constant currency basis. The slowdown in lending relates to COVID-19 pandemic. The proportion of gross loans denominated in foreign currency decreased by 1.7 pp QoQ and accounted for 60.7% of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency increased by 0.1 pp QoQ and stood at 62.3%.

As of 30 June 2020, our market share in total loans stood at 39.5%, up by 0.1 pp QoQ. Our loan market share in legal entities was 39.2%, up by 0.7 pp over the same period, and our loan market share in individuals stood at 39.9%, down by 0.4 pp QoQ.

In thousands of GEL	30-Jun-20	31-Mar-20	*Change QoQ*
Loans and advances to customers			
Retail	**5,358,723**	**5,485,120**	**-2.3%**
Retail loans GEL	*2,550,110*	*2,445,016*	*4.3%*
Retail loans FC	*2,808,613*	*3,040,104*	*-7.6%*
Corporate	**5,070,563**	**5,209,833**	**-2.7%**
Corporate loans GEL	*1,331,062*	*1,358,616*	*-2.0%*
Corporate loans FC	*3,739,501*	*3,851,217*	*-2.9%*
MSME	**3,206,106**	**3,234,687**	**-0.9%**
MSME loans GEL	*1,470,959*	*1,432,858*	*2.7%*
MSME loans FC	*1,735,147*	*1,801,829*	*-3.7%*
Total loans and advances to customers	**13,635,392**	**13,929,640**	**-2.1%**

	2Q'20	1Q'20	2Q'19	*Change YoY*	*Change QoQ*
Loan yields	**9.7%**	**10.3%**	**11.0%**	**-1.3%**	**-0.6%**
Loan yields GEL	*15.0%*	*15.5%*	*15.6%*	*-0.6%*	*-0.5%*
Loan yields FC	*6.5%*	*6.8%*	*7.8%*	*-1.3%*	*-0.3%*
Retail Loan Yields	**10.5%**	**11.2%**	**12.2%**	**-1.7%**	**-0.7%**
Retail loan yields GEL	*15.7%*	16.7%	18.4%	-2.7%	-1.0%
Retail loan yields FC	*6.1%*	6.4%	7.3%	-1.2%	-0.3%
Corporate Loan Yields	**8.7%**	**9.0%**	**8.8%**	**-0.1%**	**-0.3%**
Corporate loan yields GEL	13.3%	13.3%	9.9%	3.4%	0.0%
Corporate loan yields FC	7.0%	7.2%	8.4%	-1.6%	-0.2%
MSME Loan Yields	**10.2%**	**10.8%**	**11.5%**	**-1.3%**	**-0.6%**
MSME loan yields GEL	15.2%	15.6%	15.5%	-0.3%	-0.4%
MSME loan yields FC	6.1%	6.4%	7.8%	-1.7%	-0.3%

Loan Portfolio Quality

Total PAR 30 decreased by 1.0 pp on QoQ basis and stood at 1.3%. The decrease was driven by an improved performance across all segments. Our total NPLs stood at 2.9% and remained flat QoQ. However, COVID-19 impact has not been yet realized in those ratios mainly due to grace period offered to our customers.

Par 30	**30-Jun-20**	**31-Mar-20**	***Change QoQ***
Retail	1.3%	2.4%	-1.1 pp
Corporate	0.6%	1.6%	-1.0 pp
MSME	2.3%	3.2%	-0.9 pp
Total Loans	**1.3%**	**2.3%**	**-1.0 pp**

Non-performing Loans	**30-Jun-20**	**31-Mar-20**	***Change QoQ***
Retail	3.0%	2.9%	0.1 pp
Corporate	2.0%	2.1%	-0.1 pp
MSME	4.2%	4.3%	-0.1 pp
Total Loans	**2.9%**	**2.9%**	**0.0 pp**

NPL Coverage	**Jun-20**		**Mar-20**	
	Exc. Collateral	Incl. Collateral	Exc. Collateral	Incl. Collateral
Retail	187.6%	266.5%	199.5%	277.0%
Corporate	108.2%	268.3%	99.6%	238.4%
MSME	91.9%	206.7%	84.7%	201.5%
Total	**134.7%**	**246.7%**	**133.8%**	**241.0%**

Cost of risk

Total cost of risk decreased by 1.1 pp YoY and 2.6 pp on QoQ basis and stood at 0.0%. Cost of risk in 2Q also includes the COVID-19 related TBC Kredit credit loss allowances for loans, in the amount of GEL 9.0 million, which given its non-recurring nature has not been annualized.

In 2Q 2020, CoR was mainly driven by the charges in MSME and corporate segments, which were offset by reversal of credit loss allowances in retail segment.

Cost of Risk	**2Q'20***	**1Q'20****	**2Q'19**	***Change YoY***	***Change QoQ***
Retail	-0.7%	4.6%	2.4%	-3.1 pp	-5.3 pp
Corporate	0.3%	0.7%	-0.5%	0.8 pp	-0.4 pp
MSME	1.0%	2.1%	0.9%	0.1 pp	-1.1 pp
Total	**0.0%**	**2.6%**	1.1%	-1.1 pp	-2.6 pp

** Cost of risk in 2Q 2020 includes COVID-19 related TBC Kredit credit loss allowances for loans, in the amount of GEL 9 million, which given its non-recurring nature has not been annualized*

*** Cost of risk in 1Q 2020 includes COVID-19 related credit loss allowances for loans, in the amount of GEL 210.9 million, which given its non-recurring nature has not been annualized*

Deposit Portfolio

The total deposits portfolio decreased by 7.0% QoQ and amounted to GEL 10,420.3 million, while on a constant currency basis, the deposit portfolio decreased by 2.6 pp. Furthermore, the decrease in the corporate segment was related to high liquidity, as well as currency appreciation in 2Q 2020. Without currency effect, the corporate book would have decreased by 14.6% QoQ. We have not observed any material impact on our deposit portfolio due to COVID-19.

The proportion of deposits denominated in foreign currency dropped by 0.6 pp QoQ and accounted for 65.6% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency decreased by 0.9 pp QoQ and stood at 67.2%.

As of 30 June 2020, our market share in deposits amounted to 37.1%, down by 2.7 pp QoQ and our market share in deposits to legal entities stood at 35.9%, down by 6.3 pp over the same period. Our market share in deposits to individuals stood at 38.1%, up by 0.2% QoQ.

In thousands of GEL	**30-Jun-20**	**31-Mar-20**	***Change QoQ***
Customer Accounts			
Retail	**6,019,291**	**6,166,759**	**-2.4%**
Retail deposits GEL	*1,192,734*	*1,049,071*	*13.7%*
Retail deposits FC	*4,826,557*	*5,117,688*	*-5.7%*
Corporate	**3,222,718**	**3,892,288**	**-17.2%**
Corporate deposits GEL	*1,833,301*	*2,248,487*	*-18.5%*
Corporate deposits FC	*1,389,417*	*1,643,801*	*-15.5%*
MSME	**1,178,321**	**1,150,103**	**2.5%**
MSME deposits GEL	*555,530*	*483,750*	*14.8%*
MSME deposits FC	*622,791*	*666,353*	*-6.5%*
Total Customer Accounts	**10,420,330**	**11,209,150**	**-7.0%**

	2Q'20	**1Q'20**	**2Q'19**	***Change YoY***	***Change QoQ***
Deposit rates	**3.4%**	**3.5%**	**3.4%**	**0.0%**	**-0.1%**
Deposit rates GEL	*6.4%*	*6.4%*	*5.8%*	*0.6%*	*0.0%*
Deposit rates FC	*1.9%*	*1.9%*	*2.1%*	*-0.2%*	*0.0%*
Retail Deposit Yields	**3.0%**	**2.8%**	**3.0%**	**0.0%**	**0.2%**
Retail deposit rates GEL	6.0%	5.4%	5.3%	0.7%	0.6%
Retail deposit rates FC	2.3%	2.3%	2.4%	-0.1%	0.0%
Corporate Deposit Yields	**5.1%**	**5.3%**	**4.9%**	**0.2%**	**-0.2%**
Corporate deposit rates GEL	7.9%	8.2%	7.2%	0.7%	-0.3%
Corporate deposit rates FC	1.4%	1.5%	1.8%	-0.4%	-0.1%
MSME Deposit Yields	**0.9%**	**0.9%**	**1.0%**	**-0.1%**	**0.0%**
MSME deposit rates GEL	1.6%	1.5%	1.5%	0.1%	0.1%
MSME deposit rates FC	0.4%	0.3%	0.3%	0.1%	0.1%

Segment definition and PL

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

2Q'20	Retail	MSME	Corporate	Corp.Centre	Total
Interest income	141,343	81,388	114,371	56,012	393,114
Interest expense	(45,530)	(2,829)	(41,765)	(122,590)	(212,714)
Net gains from currency swaps	-	-	-	3,965	3,965
Net transfer pricing	(14,174)	(32,961)	(1,409)	48,544	-
Net interest income	**81,639**	**45,598**	**71,197**	**(14,069)**	**184,365**
Fee and commission income	43,615	5,009	12,673	3,741	65,038
Fee and commission expense	(20,686)	(2,378)	(2,087)	(370)	(25,521)
Net fee and commission income	**22,929**	**2,631**	**10,586**	**3,371**	**39,517**
Net insurance premium earned after claims and acquisition costs	-	-	-	5,481	5,481
Net income from foreign currency operations	7,769	5,789	10,462	(11,542)	12,478
Foreign exchange translation gains less losses/(losses less gains)	-	-	-	6,659	6,659
Net gains/(losses) from derivative financial instruments	-	-	-	(13)	(13)
Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income	-	-	-	(1,480)	(1,480)
Other operating income	941	65	210	1,867	3,083
Share of profit of associates	-	-	-	(47)	(47)
Other operating non-interest income and insurance profit	**8,710**	**5,854**	**10,672**	**925**	**26,161**
Credit loss allowance for loans to customers	5,671	(10,629)	(3,233)	-	(8,191)
Credit loss allowance for performance guarantees and credit related commitments	773	184	270	-	1,227
Credit loss allowance for investments in finance lease	-	-	-	(3,408)	(3,408)
Credit loss allowance for other financial assets	128	-	(282)	(834)	(988)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	140	(94)	46
Profit/(loss) before G&A expenses and income taxes	**119,850**	**43,638**	**89,350**	**(14,109)**	**238,729**
Losses from modifications of financial instruments	(1,347)	(290)	(1,610)	(280)	(3,527)
Staff costs	(27,407)	(11,102)	(7,822)	(10,873)	(57,204)
Depreciation and amortization	(10,915)	(2,750)	(1,027)	(1,735)	(16,427)
Provision for liabilities and charges	-	-	-	(59)	(59)
Administrative and other operating expenses	(10,823)	(3,525)	(2,396)	(5,897)	(22,641)
Operating expenses	**(49,145)**	**(17,377)**	**(11,245)**	**(18,564)**	**(96,331)**
Profit/(loss) before tax	**69,358**	**25,971**	**76,495**	**(32,953)**	**138,871**
Income tax expense	(7,204)	(1,833)	(4,206)	578	(12,665)
Profit/(loss) for the year	**62,154**	**24,138**	**72,289**	**(32,375)**	**126,206**

Consolidated Financial Statements of TBC Bank Group PLC

Consolidated Balance Sheet

In thousands of GEL	Jun-20	Mar-20
Cash and cash equivalents	981,803	1,127,242
Due from other banks	30,879	34,699
Mandatory cash balances with National Bank of Georgia	1,794,010	1,900,285
Loans and advances to customers	13,105,988	13,388,126
Investment securities measured at fair value through other comprehensive income	1,082,520	999,578
Bonds carried at amortized cost	1,335,415	1,051,603
Investments in finance leases	270,172	281,717
Investment properties	70,716	70,926
Current income tax prepayment	36,703	25,771
Deferred income tax asset	7,470	21,472*
Other financial assets	174,378	188,196
Other assets	258,349	245,359
Premises and equipment	345,064	343,193*
Right of use assets	62,865	58,182
Intangible assets	194,689	181,283
Goodwill	60,296	62,108
Investments in associates	2,112	2,792
TOTAL ASSETS	**19,813,429**	**19,982,532***
LIABILITIES		
Due to credit institutions	4,403,406	3,767,185
Customer accounts	10,420,330	11,209,150
Lease liabilities	65,937	66,513
Other financial liabilities	138,749	139,223
Current income tax liability	692	465
Debt Securities in issue	1,396,141	1,488,024
Deferred income tax liability	5	5
Provisions for liabilities and charges	25,558	25,861
Other liabilities	80,557	77,743
Subordinated debt	628,649	683,227
TOTAL LIABILITIES	**17,160,024**	**17,457,396**
EQUITY		
Share capital	1,682	1,682
Shares held by trust	(34,451)	(34,451)
Share premium	848,459	848,459
Retained earnings	2,029,545	1,904,716*
Group re-organisation reserve	(162,166)	(162,167)
Share based payment reserve	(31,808)	(36,177)
Revaluation reserve for premises	-	-
Fair value reserve	(1,492)	(1,454)
Cumulative currency translation reserve	(5,685)	(3,683)
Net assets attributable to owners	**2,644,084**	**2,516,925***
Non-controlling interest	9,321	8,211*
TOTAL EQUITY	**2,653,405**	**2,525,136***
TOTAL LIABILITIES AND EQUITY	**19,813,429**	**19,982,532***

** Certain amounts do not correspond to the 2019 consolidated financial statement as they reflect the change in accounting policy for PPE from revaluation model to cost method in 2Q 2020.*

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of GEL	2Q'20	1Q'20	2Q'19
Interest income	393,114	394,779	340,301
Interest expense	(212,714)	(195,377)	(149,820)
Net gains from currency swaps	3,965	8,557	6,967
Net interest income	**184,365**	**207,959**	**197,448**
Fee and commission income	65,038	73,714	68,983
Fee and commission expense	(25,521)	(30,162)	(25,449)
Net fee and commission income	**39,517**	**43,552**	**43,534**
Net insurance premiums earned	13,385	13,233	8,663
Net insurance claims incurred and agents' commissions	(7,904)	(8,433)	(4,325)
Net insurance premium earned after claims and acquisition costs	**5,481**	**4,800**	**4,338**
Net income from foreign currency operations	12,478	36,928	17,580
Net gain/(losses) from foreign exchange translation	6,659	(8,286)	5,587
Net gains/(losses) from derivative financial instruments	(13)	(7)	(86)
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	(1,480)	278	79
Other operating income	3,083	4,894	3,650
Share of profit of associates	(47)	137	172
Other operating non-interest income	**20,680**	**33,944**	**26,982**
Credit loss allowance for loans to customers	(8,191)	(241,025)	(30,067)
Credit loss allowance for investments in finance lease	(3,408)	(870)	219
Credit loss allowance for performance guarantees and credit related commitments	1,227	(2,024)	(824)
Credit loss allowance for other financial assets	(988)	(3,234)	(2,389)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	46	(584)	(311)
Operating profit after expected credit losses	**238,729**	**42,518**	**238,930**
Losses from modifications of financial instruments	**(3,527)**	**(30,643)**	-
Staff costs	(57,204)	(56,802)	(58,886)
Depreciation and amortization	(16,427)	(15,788)	(15,955)
(Provision for)/ recovery of liabilities and charges	(59)	136	1,241
Administrative and other operating expenses	(22,641)	(33,375)	(35,783)
Operating expenses	**(96,331)**	**(105,829)**	**(109,383)**
Profit/(loss) before tax	**138,871**	**(93,954)**	**129,547**
Income tax expense	(12,665)	36,948	(9,329)
Profit/(loss) for the period	**126,206**	**(57,006)**	**120,218**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve	(38)	5,022	2,976
Exchange differences on translation to presentation currency	(2,002)	3,167	815
Items that will not be reclassified to profit or loss:			
Revaluation of premises and equipment			
Income tax recorded directly in other comprehensive income			
Other comprehensive income for the period	(2,040)	8,189	3,791
Total comprehensive income for the period	**124,166**	**(48,817)**	**124,009**
Profit/(loss) attributable to:			
- Shareholders of TBCG	125,100	(57,475)	119,998
- Non-controlling interest	1,106	469	220
Profit/(loss) for the period	**126,206**	**(57,006)**	**120,218**
Total comprehensive income is attributable to:			
- Shareholders of TBCG	123,060	(49,267)	123,785
- Non-controlling interest	1,106	450	224
Total comprehensive income for the period	**124,166**	**(48,817)**	**124,009**

Consolidated Statement of Cash flows

In thousands of GEL	30-Jun-20	31-Mar-20
Cash flows from/(used in) operating activities		
Interest received	579,414	343,993
Interest received on currency swaps	12,522	-
Interest paid	(404,923)	(143,355)
Fees and commissions received	131,347	70,010
Fees and commissions paid	(56,054)	(30,504)
Insurance and reinsurance received	43,373	22,347
Insurance claims paid	(13,458)	(11,259)
Income received from trading in foreign currencies	49,406	36,907
Other operating income received	2,860	2,535
Staff costs paid	(120,706)	(44,993)
Administrative and other operating expenses paid	(61,860)	(41,585)
Income tax paid	(11,983)	(80)
Cash flows from operating activities before changes in operating assets and liabilities	***149, 938***	*204,015*
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(183,202)	(74,492)
Loans and advances to customers	(357,130)	(191,641)
Net investments in lease	11,008	980
Other financial assets	(33,976)	(48,589)
Other assets	10,847	16,622
Net change in operating liabilities		
Due to other banks	85,357	35,387
Customer accounts	(88,078)	163,321
Other financial liabilities	11,915	62,034
Change in finance lease liabilities	-	(4,100)
Other liabilities and provision for liabilities and charges	3,838	3,275
Net cash (used in)/ from operating activities	***(389,483)***	*166,811*
Cash flows from/(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(251,486)	(85,681)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	-	24,984
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	180,702	57,266
Acquisition of bonds carried at amortised cost	(495,945)	(139,561)
Proceeds from redemption of bonds carried at amortised cost	171,137	100,970
Acquisition of premises, equipment and intangible assets	(74,550)	(44,151)
Proceeds from disposal of premises, equipment and intangible assets	24,172	12,836
Proceeds from disposal of investment property	3,128	3,129
Acquisition of subsidiaries and associates	936	
Net cash used in investing activities	***(441,906)***	*(70,208)*
Cash flows from/(used in) financing activities		
Proceeds from other borrowed funds	1,615,016	1,321,226
Redemption of other borrowed funds	(966,746)	(1,434,930)
Repayment of principal of lease liabilities	(5,420)	-
Redemption of subordinated debt	-	-
Proceeds from debt securities in issue	171,531	70,516
Redemption of debt securities in issue	(12,569)	-
Net cash flows from/(used in) financing activities	***801,812***	***(43,188)***
Effect of exchange rate changes on cash and cash equivalents	***7,797***	***74,345***
Net (decrease)/increase in cash and cash equivalents	***(21,780)***	***123,659***
Cash and cash equivalents at the beginning of the period	***1,003,583***	***1,003,583***
Cash and cash equivalents at the end of the period	***981,803***	***1,127,242***

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)	**2Q'20**	**1Q'20**	**2Q'19**
Profitability ratios:			
ROE[1]	19.5%	n/a	21.1%*
ROA[2]	2.6%	n/a	3.0%*
ROE before credit loss allowance[3]	21.3%	28.7%	26.4%
Cost to income[4]	38.5%	36.5%	40.2%
NIM[5]	4.3%	5.1%	5.8%
Loan yields[6]	9.7%	10.3%	11.0%
Deposit rates[7]	3.4%	3.5%	3.4%
Yields on interest earning assets[8]	9.1%	9.7%	10.0%
Cost of funding[9]	5.0%	5.0%	4.5%
Spread[10]	4.1%	4.7%	5.5%
Asset quality and portfolio concentration:			
Cost of risk[11]	0.0%**	2.6%***	1.1%
PAR 90 to Gross Loans[12]	1.0%	1.2%	1.3%
NPLs to Gross Loans[13]	2.9%	2.9%	3.1%
NPLs coverage[14]	134.7%	133.8%	97.9%
NPLs coverage with collateral[15]	246.7%	241.0%	206.0%
Credit loss level to Gross Loans[16]	3.9%	3.9%	3.1%
Related Party Loans to Gross Loans[17]	0.1%	0.1%	0.1%
Top 10 Borrowers to Total Portfolio[18]	8.2%	8.7%	8.6%
Top 20 Borrowers to Total Portfolio[19]	12.3%	12.9%	12.6%
Capital optimisation:			
Net Loans to Deposits plus IFI Funding[20]	105.3%	101.8%	91.4%
Net Stable Funding Ratio[21]	127.5%	124.7%	138.1%****
Liquidity Coverage Ratio[22]	124.8%	107.6%	126.3%
Leverage[23]	7.5x	7.9x*****	7.4x*****
CET 1 CAR (Basel III)[24]	10.0%	9.1%	12.0%
Regulatory Tier 1 CAR (Basel III)[25]	12.7%	12.0%	12.4%
Regulatory Total 1 CAR (Basel III)[26]	17.2%	16.7%	17.4%

** Prior to change in PPE accounting policy from revaluation model to cost method, ROE stood at 20.7%, while ROA remained unchanged in 2Q 2019*
*** Cost of risk for 2Q 2020 includes COVID-19 related TBC Kredit credit loss allowances for loans, in the amount of GEL 9.0 million, which given its non-recurring nature has not been annualized*
**** Cost of risk for 1Q 2020 includes COVID-19 related credit loss allowances for loans, in the amount of GEL 210.9 million, which given its non-recurring nature has not been annualized*
***** Based on internal estimates*
****** Prior to change in PPE accounting policy from revaluation model to cost method, Leverage stood at 7.8x and 7.3x for 1Q 2020 and 2Q 2019, respectively*

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

Exchange Rates

To calculate the QoQ growth of the Balance Sheet items without the currency exchange rate effect, we used the USD/GEL exchange rate of 3.2845 as of 31 March 2020. As of 30 June 2020 the USD/GEL exchange rate equalled 3.0552. For P&L items growth calculations without currency effect, we used the average USD/GEL exchange rate for the following periods: 2Q 2020 of 3.1395, 1Q 2020 of 2.9267, 2Q 2019 of 2.7393.

Unaudited Consolidated Financial Results Overview for 1H 2020

This statement provides a summary of the unaudited business and financial trends for 1H 2020 for TBC Bank Group plc and its subsidiaries. The quarterly financial information and trends are unaudited.

TBC Bank Group PLC financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS.

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 1Q 2020 and 2019, while no material impact was recorded in the income statement.

Net Interest Income

In 1H 2020, net interest income amounted to GEL 392.3 million, down by 1.6% YoY, whereby interest income increased by 16.2% and interest expense increased by 40.3%.

The YoY increase in interest income was primarily related to an increase in interest income from loans, which was driven by an increase in the gross loan portfolio by GEL 2,494.0 million, or 22.4%. This effect was partially offset by a 1.1 pp drop in loan yields across all segments, mainly related to a decrease in Libor rate, currency devaluation, change in segment mix towards corporate, as well as competition.

Our interest expense increased by 40.3%, which was primarily 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, as well as growth in the average balance of the NBG loan. The other contributor was an increase in interest expense from deposits due to an increase in respective portfolio of GEL 543.5 million. Overall, the GEL cost of funding increased by 1.3 pp YoY mainly driven by an increase in the refinance rate as well as the increased cost of GEL deposits. Over the same period, FC cost of funding increased by 0.1 pp despite the decrease in Libor rate, which was offset by cost of debt securities issued, as mentioned above.

In 1H 2020, our NIM stood at 4.7%, down by 1.3 pp YoY.

In thousands of GEL	**1H'20**	**1H'19**	***Change YoY***
Interest income	787,893	678,216	16.2%
Interest expense	(408,091)	(290,777)	40.3%
Net gains from currency swaps	12,522	11,147	12.3%
Net interest income	**392,324**	**398,586**	**-1.6%**
NIM	**4.7%**	**6.0%**	**-1.3%**

Net fee and commission income

In 1H 2020, net fee and commission income totalled GEL 83.1 million, down by 2.7% YoY.

The main driver for the YoY reduction was other net fee and commission income due to reduced cash transactions, as well as a decrease in fees from card operations on the back of a slow-down in economic activity due to the COVID-19 pandemic. Furthermore, starting from 4Q 2019 we reclassified certain fees from our Uzbek subsidiary Payme (Inspired LLC) from other sub-category to settlement transactions, in the amount of GEL 6.0 million in 1H 2020. This decrease was partially offset by an increase in fees from guarantees issued and letters of credit due to an increase in the respective portfolio.

In thousands of GEL	**1H'20**	**1H'19**	***Change YoY***
Net fee and commission income			
Card operations	23,502	25,909	-9.3%
Settlement transactions	38,012	29,986	26.8%
Guarantees issued and letters of credit	17,919	13,261	35.1%
Other	3,636	16,185	-77.5%
Total net fee and commission income	**83,069**	**85,341**	**-2.7%**

Other Non-Interest Income

Total other non-interest income increased by 7.6% YoY and amounted to GEL 64.9 million in 1H 2020.

The YoY increase was mainly attributable to growth in net income from foreign currency operations and growth in the net insurance premium earned after claims and acquisition costs. The former increase was driven by an increase in the number and volume of FX transactions across all segments as well as increased the spread due to high volatility.

Net insurance premium earned after claims and acquisition costs increased by 27.4% YoY, mainly related to the overall increase of the insurance business as well as decrease in claims during the lock-down period related to COVID-19 pandemic. More information about TBC insurance can be found in Annex 4 on page 41.

In thousands of GEL	1H'20	1H'19	*Change YoY*
Other non-interest income			
Net income from foreign currency operations	47,779	44,201	8.1%
Net insurance premium earned after claims and acquisition costs[23]	10,281	8,067	27.4%
Other operating income	6,845	8,053	-15.0%
Total other non-interest income	**64,905**	**60,321**	**7.6%**

Credit Loss Allowance

Total credit loss allowance in 1H 2020 amounted to GEL 259.1 million. This significant increase was driven by:

- an extra credit loss allowance booked in the first quarter, in the amount of GEL 215.7 million (or GEL 210.9 million for loans), to prepare for the potential impact of the COVID-19 pandemic on our borrowers; and
- COVID- 19 related credit loss allowances for loans in the amount of GEL 9.0 million, which was created in our Azeri subsidiary, TBC Kredit in the second quarter.

These impacts translated into additional 1.7% cost of risk, which given its non-recurring nature was not annualized.

In thousands of GEL	1H'20	1H'19	*Change YoY*
Credit loss allowance for loan to customers	(249,216)	(66,483)	NMF
Credit loss allowance for other transactions	(9,835)	16	NMF
Total credit loss allowance	**(259,051)**	**(66,467)**	**NMF**
Operating income after credit loss allowance	**281,247**	**477,781**	**-41.1%**
Cost of risk	**2.1%***	**1.3%**	**0.8 pp**

** Cost of risk for 1H 2020 consists COVID-19 related credit loss allowances in the amount of GEL 219.9 million, which given its non-recurring nature has not been annualized.*

NMF – no meaningful figures

Operating Expenses

In 1H 2020, our total operating expenses decreased by 4.6% YoY, as a result of our increased focus on cost optimization. The decrease was mainly related to a decrease in administrating and other expenses due to COVID-19 effects and included discretionary administrative expenses such as advertising, marketing and consultation services as well as the impact from renegotiated rent expenses per IFRS 16 in the amount of GEL 4.2 million. Another driver was the reduced share based payment expense in staff cost, due to the fact that management waived their right to receive their 2020 annual bonus and LTIP for the 2020-2022 performance period.

Thus, in 1H 2020 our cost to income ratio stood at 37.4%, down by 1.5 pp YoY, while our standalone cost to income was 31.9% down by 3.8 pp over the same period.

In thousands of GEL	1H'20	1H'19	*Change YoY*
Operating expenses			
Staff costs	(114,006)	(116,639)	-2.3%
Provisions for liabilities and charges	77	1,441	-94.7%
Depreciation and amortization	(32,215)	(32,124)	0.3%
Administrative & other operating expenses	(56,016)	(64,575)	-13.3%
Total operating expenses	**(202,160)**	**(211,897)**	**-4.6%**
Cost to income	**37.4%**	**38.9%**	**-1.5 pp**
Standalone Cost to income*	**31.9%**	**35.7%**	**-3.8 pp**

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

[23] Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit (as shown in Annex 4 on page 41) 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

Due to the COVID-19 pandemic, the Group incurred losses from modifications of financial instruments related to COVID-19 in the amount of GEL 34.2 million, to reflect the decrease in the present value of cash-flows resulting from a three-month grace period granted to borrowers. The modifications are related to losses incurred on loans, advances to customers and investments in leases due to the COVID-19 events and are not expected to recur again in normal course of the business.

In 1H 2020, we generated a GEL 69.2 million profit, which was affected by the following COVID-19 related charges:

- a net modification loss of financial instruments in the amount of GEL 34.2 million, out of which GEL 3.5 million relates to 2Q 2020; and
- a COVID-19 related total credit loss allowance in the amount of GEL 224.7 million, out of which GEL 9.0 million is related to credit loss allowances of our Azeri subsidiary, TBC Kredit.

As a result, our ROE stood at 5.2%, down by 17.6 pp YoY, while ROA stood at 0.7%, down by 2.6 pp over the same period.

In thousands of GEL	1H'20	1H'19	*Change YoY*
Losses from modifications of financial instruments	**(34,170)**	**-**	**NMF**
Profit before tax	**44,917**	**265,884**	**-83.1%**
Income tax expense	24,283	(12,344)	NMF
Profit for the period	**69,200**	**253,540**	**-72.7%**
ROE	**5.2%**	**22.8%***	**-17.6 pp**
ROA	**0.7%**	**3.3%***	**-2.6 pp**

** Prior to change in PPE accounting policy from revaluation model to cost method, ROE stood at 22.3%, while ROA remained unchanged in 1H 2019*

Funding and Liquidity

As of 30 June 2020, the total liquidity coverage ratio, as defined by the NBG, was 124.8%, above the 100% limit, while the LCR in GEL and FC stood at 141.0% and 117.3% respectively, above the respective limits of 75% and 100%.

However, in the light of COVID-19 pandemic, starting from May 2019, NBG removed minimum requirement on GEL LCR of 75%, for one year period. Despite ease of requirement, our internal limit of 75% remains unchanged and we continue to operate with high liquidity buffers.

As of 30 June 2020, NSFR stood at 127.5%, compared to the regulatory limit of 100%, effective from September 2019.

	30-Jun-20	30-Jun-19	*Change YoY*
Minimum net stable funding ratio, as defined by the NBG	*100%*	*100%*	*0.0 pp*
Net stable funding ratio as defined by the NBG	127.5%	138.1%*	-10.6%
Net loans to deposits + IFI funding	105.3%	91.4%	13.9%
Leverage (Times)	7.5x	7.4x**	0.1x
Minimum liquidity ratio, as defined by the NBG	*30.0%*	*30.0%*	*0.0%*
Liquidity ratio, as defined by the NBG	39.2%	37.1%	2.1%
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	124.8%	126.3%	-1.5 pp
LCR in GEL, as defined by the NBG	141.0%	100.4%	40.6 pp
LCR in FC, as defined by the NBG	117.3%	143.8%	-26.5 pp

**Based on internal estimates*
*** Prior to change in PPE accounting policy from revaluation model to cost method, Leverage stood at 7.3x as of 30 June 2019*

Regulatory Capital

In 1Q 2020, due to the COVID-19 pandemic, the NBG is implementing countercyclical measures to support the financial stability of the banking system and to ensure the provision of financial support to sectors of the economy affected by the current turmoil. In relation to capital adequacy requirements, the following measures have been taken:

- Postponing the phasing in of additional capital requirements planned in March 2020, with a 0.44 pp effect on TBC's CET 1;
- Allowing banks to use the conservation buffer (currently at 2.5pp on CET1) and 2/3 of CICR buffer resulted in the release of 1.0-2.0% of capital across our CET1, Tier 1 and Total CAR;
- Leaving open the possibility of releasing all pillar 2 buffers (remaining 1/3 CICR, HHI and Net Grape buffers) in the range of 1.0-4.0% of capital across our CET1, Tier 1 and Total CAR.

As of 30 June 2020, the Bank's CET 1, Tier 1 and Total Capital adequacy ratios stood at 10.0%, 12.7% and 17.2%, respectively, comfortably above the respective eased minimum requirements of 6.9%, 8.7% and 13.3%.

CET 1 ratio decreased by 2.0 pp on YoY basis mainly due to additional credit loss allowances created according to local standards in relation to the COVID 19 pandemic, increase in loan book and currency depreciation. These effects were offset by issuance of an AT1 instrument in July 2019 in the amount of USD 125 million, thus leading to an increase in Tier 1 Capital ratio by 0.3pp. Over the same period, Total Capital Adequacy ratio decreased by 0.2pp mainly due to decrease in subordinated loan.

In thousands of GEL	**30-Jun-20**	**30-Jun-19**	***Change YoY***
CET 1 Capital	1,631,006	1,678,050	-2.8%
Tier 1 Capital	2,068,052	1,730,302	19.5%
Total Capital	2,787,136	2,430,135	14.7%
Total Risk-weighted Exposures	16,249,475	13,986,201	16.2%
Minimum CET 1 ratio	*6.9%*	*8.3%*	*-1.4%*
CET 1 Capital adequacy ratio	10.0%	12.0%	-2.0%
Minimum Tier 1 ratio	*8.7%*	*10.3%*	*-1.6%*
Tier 1 Capital adequacy ratio	12.7%	12.4%	0.3%
Minimum total capital adequacy ratio	*13.3%*	*15.8%*	*-2.5%*
Total Capital adequacy ratio	17.2%	17.4%	-0.2%

Loan Portfolio

As of 30 June 2020, the gross loan portfolio reached GEL 13,635.4 million, up by 22.4% YoY or up by 18.1% on a constant currency basis. The YoY increase was spread across all segments, with the largest contribution coming from the corporate segment, which was mainly driven by the acquisition of both large and mid-corporate clients. The proportion of gross loans denominated in foreign currency decreased by 0.8 pp YoY and accounted for 60.7 % of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency was up by 3.1 pp YoY and stood at 59.3%.

As of 30 June 2020, our market share in total loans stood at 39.5%, up by 1.0 pp YoY, while our loan market share in legal entities was 39.2%, up by 1.9 pp over the same period, and our loan market share in individuals stood at 39.9%, up by 0.3 pp QoQ.

In thousands of GEL	**30-Jun-20**	**30-Jun-19**	***Change YoY***
Loans and advances to customers			
Retail	**5,358,723**	**4,835,320**	**10.8%**
Retail loans GEL	*2,550,110*	*2,170,941*	*17.5%*
Retail loans FC	*2,808,613*	*2,664,379*	*5.4%*
Corporate	**5,070,563**	**3,658,340**	**38.6%**
Corporate loans GEL	*1,331,062*	*1,045,076*	*27.4%*
Corporate loans FC	*3,739,501*	*2,613,264*	*43.1%*
MSME	**3,206,106**	**2,647,700**	**21.1%**
MSME loans GEL	*1,470,959*	*1,251,812*	*17.5%*
MSME loans FC	*1,735,147*	*1,395,888*	*24.3%*
Total loans and advances to customers	**13,635,392**	**11,141,360**	**22.4%**

	1H'20	1H'19	*Change YoY*
Loan yields	**10.1%**	**11.2%**	**-1.1 pp**
Loan yields GEL	*15.2%*	*16.0%*	*-0.8 pp*
Loan yields FC	*6.7%*	*8.0%*	*-1.3 pp*
Retail Loan Yields	**10.9%**	**12.5%**	**-1.6 pp**
Retail loan yields GEL	*16.2%*	18.9%	-2.7 pp
Retail loan yields FC	*6.3%*	7.4%	-1.1 pp
Corporate Loan Yields	**8.9%**	**9.2%**	**-0.3 pp**
Corporate loan yields GEL	13.3%	10.4%	2.9 pp
Corporate loan yields FC	7.2%	8.7%	-1.5 pp
MSME Loan Yields	**10.5%**	**11.5%**	**-1.0 pp**
MSME loan yields GEL	15.4%	15.5%	-0.1 pp
MSME loan yields FC	6.3%	7.9%	-1.6 pp

Loan Portfolio Quality

The total par 30 decreased by 0.8 pp and stood at 1.3%, driven by the improved performance across all segments. Our NPL ratio was down by 0.2 pp and stood at 2.9%, which was attributable to the strong performance of the Retail and Corporate segments. However, COVID-19 impact has not been yet realized in those ratios mainly due to grace period offered to our customers.

Par 30	**30-Jun-20**	**30-Jun-19**	***Change YoY***
Retail	1.3%	2.7%	-1.4 pp
Corporate	0.6%	1.0%	-0.4 pp
MSME	2.3%	2.8%	-0.5 pp
Total Loans	**1.3%**	**2.1%**	**-0.8 pp**

Non-performing Loans	**30-Jun-20**	**30-Jun-19**	***Change YoY***
Retail	3.0%	3.3%	-0.3 pp
Corporate	2.0%	2.1%	-0.1 pp
MSME	4.2%	4.2%	0.0 pp
Total Loans	**2.9%**	**3.1%**	**-0.2 pp**

NPL Coverage	**Jun-20**		**Jun-19**	
	Exc. Collateral	Incl. Collateral	Exc. Collateral	Incl. Collateral
Retail	187.6%	266.5%	113.8%	180.4%
Corporate	108.2%	268.3%	103.3%	299.1%
MSME	91.9%	206.7%	71.5%	179.0%
Total	**134.7%**	**246.7%**	**97.9%**	**206.0%**

Cost of risk

The total cost of risk for 1H 2020 stood at 2.1%, up by 0.8 pp. The YoY increase was spread across all segments and was driven by an extra credit loss allowances booked in 1H 2020.

Cost of Risk	**1H'20***	**1H'19**	***Change YoY***
Retail	3.3%	2.4%	0.9 pp
Corporate	0.7%	-0.3%	1.0 pp
MSME	2.3%	1.2%	1.1 pp
Total	**2.1%**	**1.3%**	**0.8 pp**

** Cost of risk in 1H comprises of COVID-19 related credit loss allowances in the amount of GEL 219.9 million, which given its non-recurring nature has not been annualized.*

Deposit Portfolio

The total deposits portfolio increased by 5.5% YoY and amounted to GEL 10,420.3 million, while on a constant currency basis the total deposit portfolio increased by 1.4 pp over the same period. The proportion of deposits denominated in foreign currency dropped by 2.8 pp YoY and accounted for 65.6% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency increased by 5.1 pp YoY and stood at 64.2%.

As of 30 June 2020, our market share in deposits amounted to 37.1%, down by 3.9 pp YoY, and our market share in deposits to legal entities stood at 35.9%, down by 7.1 pp over the same period. Our market share in deposits to individuals stood at 38.1%, down by 1.4% QoQ.

In thousands of GEL	30-Jun-20	30-Jun-19	*Change YoY*
Customer Accounts			
Retail	**6,019,291**	**5,360,114**	**12.3%**
Retail deposits GEL	*1,192,734*	*1,044,181*	*14.2%*
Retail deposits FC	*4,826,557*	*4,315,933*	*11.8%*
Corporate	**3,222,718**	**3,510,179**	**-8.2%**
Corporate deposits GEL	*1,833,301*	*2,069,230*	*-11.4%*
Corporate deposits FC	*1,389,417*	*1,440,949*	*-3.6%*
MSME	**1,178,321**	**1,006,520**	**17.1%**
MSME deposits GEL	*555,530*	*557,163*	*-0.3%*
MSME deposits FC	*622,791*	*449,357*	*38.6%*
Total Customer Accounts	**10,420,330**	**9,876,813**	**5.5%**

	1H'20	1H'19	*Change YoY*
Deposit rates	**3.5%**	**3.4%**	**0.1 pp**
Deposit rates GEL	*6.4%*	*5.9%*	*0.5 pp*
Deposit rates FC	*1.9%*	*2.0%*	*-0.1 pp*
Retail Deposit Yields	**2.9%**	**2.9%**	**0.0 pp**
Retail deposit rates GEL	5.7%	5.3%	0.4 pp
Retail deposit rates FC	2.3%	2.3%	0.0 pp
Corporate Deposit Yields	**5.3%**	**4.9%**	**0.4 pp**
Corporate deposit rates GEL	8.3%	7.4%	0.9 pp
Corporate deposit rates FC	1.5%	1.7%	-0.2 pp
MSME Deposit Yields	**0.9%**	**0.9%**	**0.0 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 PL

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

1H'20	Retail	MSME	Corporate	Corp.Centre	Total
Interest income	285,336	162,144	225,082	115,331	787,893
Interest expense	(86,768)	(5,426)	(87,181)	(228,716)	(408,091)
Net gains from currency swaps	-	-	-	12,522	12,522
Net transfer pricing	(32,744)	(64,097)	841	96,000	-
Net interest income	**165,824**	**92,621**	**138,742**	**(4,863)**	**392,324**
Fee and commission income	96,189	11,443	24,949	6,171	138,752
Fee and commission expense	(45,757)	(5,171)	(3,990)	(765)	(55,683)
Net fee and commission income	**50,432**	**6,272**	**20,959**	**5,406**	**83,069**
Net insurance premium earned after claims and acquisition costs	-	-	-	10,281	10,281
Net income from foreign currency operations	17,897	13,748	25,763	(8,002)	49,406
Foreign exchange translation gains less losses/(losses less gains)	-	-	-	(1,627)	(1,627)
Net gains/(losses) from derivative financial instruments	-	-	-	(20)	(20)
Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income	-	-	-	(1,202)	(1,202)
Other operating income	2,390	129	858	4,600	7,977
Share of profit of associates	-	-	-	90	90
Other operating non-interest income and insurance profit	**20,287**	**13,877**	**26,621**	**4,120**	**64,905**
Credit loss allowance for loans to customers	(160,861)	(61,728)	(26,627)	-	(249,216)
Credit loss allowance for performance guarantees and credit related commitments	(378)	(1,069)	650	-	(797)
Credit loss allowance for investments in finance lease	-	-	-	(4,278)	(4,278)
Credit loss allowance for other financial assets	(69)	-	(1,964)	(2,189)	(4,222)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	8	(546)	(538)
Profit/(loss) before G&A expenses and income taxes	**75,235**	**49,973**	**158,389**	**(2,350)**	**281,247**
Losses from modifications of financial instruments	(22,547)	(7,068)	(2,675)	(1,880)	(34,170)
Staff costs	(54,421)	(23,331)	(14,894)	(21,360)	(114,006)
Depreciation and amortization	(21,738)	(5,422)	(2,028)	(3,027)	(32,215)
Provision for liabilities and charges	-	-	-	77	77
Administrative and other operating expenses	(28,272)	(9,284)	(5,803)	(12,657)	(56,016)
Operating expenses	**(104,431)**	**(38,037)**	**(22,725)**	**(36,967)**	**(202,160)**
Profit/(loss) before tax	**(51,743)**	**4,868**	**132,989**	**(41,197)**	**44,917**
Income tax expense	25,745	5,991	(8,990)	1,537	24,283
Profit/(loss) for the year	**(25,998)**	**10,859**	**123,999**	**(39,660)**	**69,200**

Consolidated Financial Statements of TBC Bank Group PLC

Consolidated Balance Sheet

In thousands of GEL	**Jun-20**	**Jun-19**
Cash and cash equivalents	981,803	1,628,344
Due from other banks	30,879	27,860
Mandatory cash balances with National Bank of Georgia	1,794,010	1,841,237
Loans and advances to customers	13,105,988	10,801,264
Investment securities measured at fair value through other comprehensive income	1,082,520	908,158
Bonds carried at amortized cost	1,335,415	766,663
Investments in finance leases	270,172	220,871
Investment properties	70,716	79,114
Current income tax prepayment	36,703	19,417
Deferred income tax asset	7,470	1,753
Other financial assets	174,378	165,382
Other assets	258,349	211,850
Premises and equipment	345,064	322,089*
Right of use assets	62,865	61,555
Intangible assets	194,689	123,910
Goodwill	60,296	45,301
Investments in associates	2,112	2,363
TOTAL ASSETS	**19,813,429**	**17,227,131***
LIABILITIES		
Due to credit institutions	4,403,406	3,052,742
Customer accounts	10,420,330	9,876,813
Lease liabilities	65,937	62,598
Other financial liabilities	138,749	252,280
Current income tax liability	692	727
Debt Securities in issue	1,396,141	848,838
Deferred income tax liability	5	18,916*
Provisions for liabilities and charges	25,558	20,116
Other liabilities	80,557	85,882
Subordinated debt	628,649	688,002
TOTAL LIABILITIES	**17,160,024**	**14,906,914***
EQUITY		
Share capital	1,682	1,672
Shares held by trust	(34,451)	-
Share premium	848,459	831,773
Retained earnings	2,029,545	1,676,687*
Group re-organisation reserve	(162,166)	(162,166)
Share based payment reserve	(31,808)	(37,968)
Fair value reserve	(1,492)	12,680
Cumulative currency translation reserve	(5,685)	(6,478)
Net assets attributable to owners	**2,644,084**	**2,316,200***
Non-controlling interest	9,321	4,017*
TOTAL EQUITY	**2,653,405**	**2,320,217***
TOTAL LIABILITIES AND EQUITY	**19,813,429**	**17,227,131***

** Figures calculated due to changed PPE accounting policy from revaluation model to cost method in 2Q 2020*

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of GEL	1H'20	1H'19
Interest income	787,893	678,216
Interest expense	(408,091)	(290,777)
Net gains from currency swaps	12,522	11,147
Net interest income	**392,324**	**398,586**
Fee and commission income	138,752	129,885
Fee and commission expense	(55,683)	(44,544)
Net fee and commission income	**83,069**	**85,341**
Net insurance premiums earned	26,618	15,992
Net insurance claims incurred and agents' commissions	(16,337)	(7,925)
Net insurance premium earned after claims and acquisition costs	**10,281**	**8,067**
Net income from foreign currency operations	49,406	34,987
Net gain/(losses) from foreign exchange translation	(1,627)	9,214
Net gains/(losses) from derivative financial instruments	(20)	(245)
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	(1,202)	147
Other operating income	7,977	7,810
Share of profit of associates	90	341
Other operating non-interest income	**54,624**	**52,254**
Credit loss allowance for loans to customers	(249,216)	(66,483)
Credit loss allowance for investments in finance lease	(4,278)	178
Credit loss allowance for performance guarantees and credit related commitments	(797)	(392)
Credit loss allowance for other financial assets	(4,222)	580
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(538)	(350)
Operating profit after expected credit losses	**281,247**	**477,781**
Losses from modifications of financial instruments	**(34,170)**	-
Staff costs	(114,006)	(116,639)
Depreciation and amortization	(32,215)	(32,124)
(Provision for)/ recovery of liabilities and charges	77	1,441
Administrative and other operating expenses	(56,016)	(64,575)
Operating expenses	**(202,160)**	**(211,897)**
Profit/(loss) before tax	**44,917**	**265,884**
Income tax expense	24,283	(12,344)
Profit/(loss) for the period	**69,200**	**253,540**
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value reserve	4,984	3,999
Exchange differences on translation to presentation currency	1,165	457
Items that will not be reclassified to profit or loss:		
Revaluation of premises and equipment		
Income tax recorded directly in other comprehensive income		
Other comprehensive income for the period	6,149	4,456
Total comprehensive income for the period	**75,349**	**257,996**
Profit/(loss) attributable to:		
- Shareholders of TBCG	67,625	253,235
- Non-controlling interest	1,575	305
Profit/(loss) for the period	**69,200**	**253,540**
Total comprehensive income is attributable to:		
- Shareholders of TBCG	73,793	257,687
- Non-controlling interest	1,556	309
Total comprehensive income for the period	**75,349**	**257,996**

Consolidated Statement of Cash Flows

In thousands of GEL	30-Jun-20	30-Jun-19
Cash flows from/(used in) operating activities		
Interest received	579,414	621,472
Interest received on currency swaps	12,522	11,147
Interest paid	(404,923)	(291,963)
Fees and commissions received	131,347	127,685
Fees and commissions paid	(56,054)	(44,370)
Insurance and reinsurance received	43,373	18,560
Insurance claims paid	(13,458)	(9,727)
Income received from trading in foreign currencies	49,406	46,119
Other operating income received	2,860	11,500
Staff costs paid	(120,706)	(123,342)
Administrative and other operating expenses paid	(61,860)	(81,397)
Income tax paid	(11,983)	(30,900)
Cash flows from operating activities before changes in operating assets and liabilities	***149, 938***	***254,784***
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(183,202)	(302,690)
Loans and advances to customers	(357,130)	(385,945)
Net investments in lease	11,008	(3,498)
Other financial assets	(33,976)	19,610
Other assets	10,847	2,869
Net change in operating liabilities		
Due to other banks	85,357	276,076
Customer accounts	(88,078)	134,334
Other financial liabilities	11,915	23,487
Other liabilities and provision for liabilities and charges	3,838	9,607
Net cash (used in)/from operating activities	***(389,483)***	***28,633***
Cash flows from/(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(251,486)	(101,119)
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	180,702	210,174
Acquisition of bonds carried at amortised cost	(495,945)	(240,420)
Proceeds from redemption of bonds carried at amortised cost	171,137	126,113
Acquisition of premises, equipment and intangible assets	(74,550)	(51,490)
Proceeds from disposal of premises, equipment and intangible assets	24,172	11,023
Proceeds from disposal of investment property	3,128	9,508
Acquisition of subsidiaries and associates	936	(14,569)
Net cash used in investing activities	***(441,906)***	***(50,780)***
Cash flows from/(used in) financing activities		
Proceeds from other borrowed funds	1,615,016	553,781
Redemption of other borrowed funds	(966,746)	(938,535)
Repayment of principal of lease liabilities	(5,420)	(1,367)
Redemption of subordinated debt	-	(8,576)
Proceeds from debt securities in issue	171,531	820,708
Redemption of debt securities in issue	(12,569)	(5,805)
Net cash flows from financing activities	***801,812***	***420,206***
Effect of exchange rate changes on cash and cash equivalents	***7,797***	***63,373***
Net (decrease)/ increase in cash and cash equivalents	***(21,780)***	***461,433***
Cash and cash equivalents at the beginning of the period	***1,003,583***	***1,166,911***
Cash and cash equivalents at the end of the period	***981,803***	***1,628,344***

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)	**1H'20**	**1H'19**
Profitability ratios:		
ROE[1]	5.2%	22.8%*
ROA[2]	0.7%	3.3%*
Pre-provision ROE[3]	25.2%	28.7%
Cost to income[4]	37.4%	38.9%
NIM[5]	4.7%	6.0%
Loan yields[6]	10.1%	11.2%
Deposit rates[7]	3.5%	3.4%
Yields on interest earning assets[8]	9.5%	10.4%
Cost of funding[9]	5.0%	4.5%
Spread[10]	4.4%	5.9%
Asset quality and portfolio concentration:		
Cost of risk[11]	2.1%**	1.3%
PAR 90 to Gross Loans[12]	1.0%	1.3%
NPLs to Gross Loans[13]	2.9%	3.1%
NPLs coverage[14]	134.7%	97.9%
NPLs coverage with collateral[15]	246.7%	206.0%
Credit loss level to Gross Loans[16]	3.9%	3.1%
Related Party Loans to Gross Loans[17]	0.1%	0.1%
Top 10 Borrowers to Total Portfolio[18]	8.2%	8.6%
Top 20 Borrowers to Total Portfolio[19]	12.3%	12.6%
Capital optimisation:		
Net Loans to Deposits plus IFI Funding[20]	105.3%	91.4%
Net Stable Funding Ratio[21]	127.5%	138.1%***
Liquidity Coverage Ratio[22]	124.8%	126.3%
Leverage[23]	7.5x	7.4x****
CET 1 CAR (Basel III)[24]	10.0%	12.0%
Regulatory Tier 1 CAR (Basel III)[25]	12.7%	12.4%
Regulatory Total 1 CAR (Basel III)[26]	17.2%	17.4%

** Prior to change in PPE accounting policy from revaluation model to cost method ROE stood at 22.3%, while ROA remained unchanged in 1H 2019*
*** Cost of risk in 1H comprises of COVID-19 related credit loss allowances in the amount of GEL 219.9 million, which given its non-recurring nature has not been annualized.*
**** Based on internal estimates*
*****Prior to change in PPE accounting policy from revaluation model to cost method, Leverage stood at 7.3x for 1H 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 credit loss allowance equals net income attributable to owners excluding all credit loss allowance 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. The latter excludes all items from cash and cash equivalents, excludes EUR mandatory reserves with NBG that currently have negative interest, and includes other earning items from due from banks.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
8. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets; annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities; annualised where applicable.
10. Spread equals difference between yields on interest earning assets (including but not limited to yields on loans, securities and due from banks) and cost of funding (including but not limited to cost of deposits, cost on borrowings and due to banks).
11. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
12. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
13. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
14. NPLs coverage ratio equals total credit loss allowance for loans to customers calculated per IFRS 9 divided by the NPL loans.
15. NPLs coverage with collateral ratio equals credit loss allowance for loans to customers per IFRS 9 plus the total collateral amount of NPL loans (excluding third party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
16. Credit loss level to gross loans equals credit loss allowance for loans to customers divided by the gross loan portfolio for the same period.
17. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
18. Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
19. Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
20. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
21. Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined by NBG in line with Basel III guidelines.
22. Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG.
23. Leverage equals total assets to total equity.
24. Regulatory CET 1 CAR equals CET 1 capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
25. Regulatory tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
26. Regulatory total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.

Exchange Rates

To calculate the YoY growth without the currency exchange rate effect, we used the USD/GEL exchange rate of 2.8687 as of 30 June 2019. As of 30 June 2020 the USD/GEL exchange rate equalled 3.0552. For P&L items growth calculations without currency effect, we used the average USD/GEL exchange rate for the following periods: 1H 2020 of 3.0419, 1H 2010 of 2.7038.

Additional Disclosures

1) Subsidiaries of TBC Bank Group PLC[24]

Subsidiary	Ownership / voting % as of 30 June 2020	Country	Year of incorporation	Industry	Total Assets (after elimination) Amount GEL'000	% in TBC Group
JSC TBC Bank	**99.9%**	**Georgia**	**1992**	**Banking**	**19,245,414**	**97.13%**
United Financial Corporation JSC	99.5%	Georgia	1997	Card processing	13,076	0.07%
TBC Capital LLC	100.0%	Georgia	1999	Brokerage	14,961	0.08%
TBC Leasing JSC	100.0%	Georgia	2003	Leasing	330,377	1.67%
TBC Kredit LLC	100.0%	Azerbaijan	1999	Non-banking credit institution	18,127	0.09%
TBC Pay LLC	100.0%	Georgia	2009	Processing	35,816	0.18%
Index LLC	100.0%	Georgia	2011	Real estate management	977	0.00%
TBC Invest LLC	100.0%	Israel	2011	PR and marketing	279	0.00%
JSC TBC Insurance	**100.0%**	**Georgia**	**2014**	**Insurance**	**53,156**	**0.27%**
Redmed LLC	100.0%	Georgia	2019	E-commerce	692	0.00%
TBC International LLC	**100.0%**	**Georgia**	**2019**	**Asset management**	**478**	**0.00%**
Swoop JSC	100.0%	Georgia	2010	Retail Trade	393	0.00%
LLC Online Tickets	55.0%	Georgia	2015	Software Services	1,702	0.01%
TKT UZ	75.00%	Uzbekistan	2019	Retail Trade	179	0.00%
My.ge LLC	65.0%	Georgia	2008	E-commerce, Housing and Auto	7,079	0.04%
LLC Vendoo (Geo)	100.0%	Georgia	2019	Retail Leasing	3,673	0.02%
LLC Mypost	100.0%	Georgia	2019	Postal Service	404	0.00%
LLC Billing Solutions	51.00%	Georgia	2019	Software Services	372	0.00%
All property.ge LLC	90.0%	Georgia	2013	Real estate management	2,178	0.01%
LLC F Solutions	100.00%	Georgia	2019	Software Services	7	0.00%
Inspired LLC	**51.0%**	**Uzbekistan**	**2011**	**Processing**	**7,264**	**0.04%**
LLC Vendoo (UZ Leasing)	**100.00%**	**Uzbekistan**	**2019**	**Consumer financing**	**4,893**	**0.02%**

[24] TBC Bank Group PLC became the parent company of JSC TBC Bank on 10 August 2016.

2) Our Ecosystems

Our mission: Make life easier

Financial services with a strong focus on digital:

- Book value as of 30 June 2020 – GEL 2.5 billion;
- Total assets as of 30 June 2020 – GEL 19.8 billion;
- Number of customers as of 30 June 2020 – 2.7 million.

Ecosystems:

- Revenue[25] – GEL 48.3 million for 2Q 2020, up by 53% YoY;
- Net profit[26] – GEL 18.7 million for 2Q 2020, up by 26% YoY;
- Number of visitors[27] in 2Q 2020 –6.2 million;
- TBC Bank drives 27% of the ecosystems' revenue.

Our customer-centric ecosystems

We are increasing our touchpoints with customers by creating secure, customer-centric digital ecosystems, that help our customers to satisfy their needs in the most convenient and seamless way possible.

Our ambitions are to:

- Establish new standards of customer experience;
- Facilitate digital sales and engagement;
- Create new revenue streams;
- Collect more valuable customer data.

Payments ecosystem[28]

	1H 20	1H 19	Change
Number of payments (million)	**188.7**	**161.5**	**16.8%**
Payments ecosystem	141.4	114.0	24.0%
Other payments business	47.3	47.5	-0.4%
Volume of payments (GEL billion)	**72.6**	**78.0**	**-6.9%**
Payments ecosystem	6.0	5.0	20.0%
Other payments business	66.6	73.0	-8.8%

- **We are Number 1** in E-com & POS transactions volume, with a market share of above 57%;[29]
- **We are among the world's best** with over 86%[30] of payments being contactless;
- **We have a great innovation record** with a lot of "first in the region" payment innovations such as stickers, P2P, contactless cash withdrawal, Voice payments, Apple Pay, ATM QR withdrawal, TBC Bracelets and digital cards.

<u>Our aspirations</u>

- Annual growth rate for payments commission income of 20% in the medium term.

[25] Total ecosystems' revenue and net profit also includes net fee and commission income from POS terminals and e-commerce, while net profit also includes related operating costs

[26] Total ecosystems' revenue and net profit also includes net fee and commission income from POS terminals and e-commerce, while net profit also includes related operating costs

[27] Total number of visitors across all systems, some individuals may be visitors of multiple systems. For Payme, the number of registered customers is used

[28] Includes both retail & business payments.

[29] Source: NBG

[30] The data from Business Insider Intelligence was used for comparison purposes

3) Net gains from currency swaps

In 2019, the Group entered into swap agreements denominated in foreign currencies in order to decrease its cost of funding. As the contracts reached a significant volume, the Group revisited the presentation of effects in the statement of profit or loss. Reclassifications from other non-interest operating income to net interest income have been recorded for the first three quarters in 2019.

In thousands of GEL	**2Q'20**	**1Q'20**	**4Q'19**	**3Q'19**
Net gains from currency swaps	3,965	8,557	9,054	8,355

4) TBC Insurance

TBC Insurance is a rapidly growing, wholly owned subsidiary of TBC Bank and is the Bank's main bancassurance partner. The company was acquired by the Group in October 2016 and has since grown significantly, becoming the second largest player on the P&C and life insurance market and the largest player in the retail segment, holding 18.5% and 34.9% market shares,[31] without border motor third party liability (MTPL) insurance, respectively in 2Q 2020, based on internal estimates.

TBC Insurance serves both individual and legal entities and provides a broad range of insurance products covering motor, travel, personal accident, credit life and property, business property, liability, cargo, agro, and health insurance products. The company differentiates itself through its advanced digital channels, which include TBC Bank's award-winning internet and mobile banking applications, a wide network of self-service terminals, a web channel, and B-Bot, a Georgian-speaking chat-bot that is available through Facebook messenger.

In 2Q 2019, TBC Insurance entered the health insurance market with a focus on the premium segment. Our strategy is to focus on affluent individuals and capture the affluent market by leveraging our strong brand name, leading digital capabilities and cross-selling opportunities with payroll customers. Our medium-term target is to reach 25% market share in the premium health insurance business. In 2Q 2020, TBC Insurance health business line already attracted almost 12,000 active clients, up by 26.9% QoQ.

The total gross written premium in 2Q 2020 grew by 7.7% YoY and amounted to GEL 21.5 million, while net earned premium increased by 41.4% YoY. Starting from July 2019, we stopped re-insuring the motor portfolio, which led to an increase in net earned premium as a result of the 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.

In 2Q 2020, the net combined ratio[32] increased by 1.3 pp YoY and stood at 82.6%, driven by the health insurance business line; without the health insurance business, our net combined ratio would have been 79.4%, down by 2.8 pp.

In 2Q 2020, net profit increased substantially both YoY and QoQ, since we observed significant drop in motor and health insurance claims during the lock-down period related to the COVID-19 pandemic as well as our increased focus on cost optimization.

TBC Insurance distributed a GEL 5 million dividend for the first time since the inception of operations in 2016.

Information excluding health insurance	**2Q'20**	**1Q'20**	**2Q'19**	**1H'20**	**1H'19**
In thousands of GEL					
Gross written premium	18,849	18,294	19,557	37,143	37,028
Net earned premium[33]	15,535	16,002	12,218	31,537	22,895
Net profit	3,248	2,517	2,210	5,765	4,252
Net combined ratio	79.4%	86.3%	76.6%	82.9%	77.9%

Information including health insurance	**2Q'20**	**1Q'20**	**2Q'19**	**1H'20**	**1H'19**
In thousands of GEL					
Gross written premium	21,540	20,195	19,991	41,735	37,462
Net earned premium	17,329	17,317	12,259	34,646	22,936
Net profit	3,109	1,928	1,803	5,037	3,807
Net combined ratio	82.6%	91.5%	81.3%	87.0%	80.6%

2Q 2019 figures are provided without subsidiaries of TBC Insurance: Swoop JSC, GE Commerce LTD, All Property LTD and 1Q 2020 and 2Q 2020 figures are given without Redmed LTD.
All figures in the above table are presented before consolidation eliminations.

[31] Market shares are given without border MTPL, which was introduced starting from March 2018 and GWP was divided evenly between 17 insurance companies. Total non-health and retail market share in 2Q 2020 including MTPL stood at 18.0% and 30.5% respectively
[32] Net insurance claims plus acquisition costs and administrative expenses divided by net earned premium.
[33] Net earned premium equals earned premium minus reinsurer's share of earned premium.

6) Main terms of shareholders' agreement with Yelo Bank

- TBC Bank and Yelo Bank (former Nikoil Bank) signed a shareholders agreement in January 2019 to merge our Azeri subsidiary, TBC Kredit (with total equity of USD 4.2 mln as of 30 June 2020) with Yelo Bank (with total equity of USD 29 mln as of 30 June 2020);
- The transaction is subject to regulatory approval, which is pending;
- Our share in the joint entity will be 8.34% with a call option to increase it to 50%+1 share within four years, based on a fixed price formula;
- There is no capital commitment from TBC side;
- We are refreshing our approach in light of the COVID-19 pandemic and our expansion into Uzbekistan;
- The Group is assessing the feasibility of the completion of the transaction.

7) Loan book breakdown by stages according IFRS 9

Total (in million GEL)

Stage	Gross	% of total	Allowance	LLP rate*
1	11,332	83.1%	177	1.6%
2	1,899	13.9%	196	10.3%
3	404	3.0%	157	38.9%
Total	**13,635**	**100.0%**	**530**	**3.9%**

Corporate (in million GEL)

Stage	Gross	% of total	Allowance	LLP rate*
1	4,443	87.6%	49	1.1%
2	464	9.2%	6	1.3%
3	164	3.2%	54	32.9%
Total	**5,071**	**100.0%**	**109**	**2.2%**

MSME (in million GEL)

Stage	Gross	% of total	Allowance	LLP rate*
1	2,652	82.7%	40	1.5%
2	443	13.8%	45	10.2%
3	111	3.5%	38	34.2%
Total	**3,206**	**100.0%**	**123**	**3.8%**

Consumer (in million GEL)

Stage	Gross	% of total	Allowance	LLP rate*
1	1,560	79.5%	78	5.0%
2	341	17.4%	110	32.3%
3	61	3.1%	39	63.9%
Total	**1,962**	**100.0%**	**227**	**11.6%**

Mortgage (in million GEL)

Stage	Gross	% of total	Allowance	LLP rate*
1	2,678	78.8%	10	0.4%
2	651	19.2%	35	5.4%
3	68	2.0%	26	38.2%
Total	**3,397**	**100.0%**	**71**	**2.1%**

** LLP rate is defined as credit loss allowances divided by gross loans*

Material Existing and Emerging Risks

Risk management is a critical pillar of the Group's strategy. It is essential to identify emerging risks and uncertainties that could adversely impact on the Group's performance, financial condition and prospects. This section analyses the principal risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by as yet unknown risks and uncertainties other than those listed below.

The Board has undertaken a robust assessment of the principal 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. The management has a reasonable expectation that the Group has sufficient resources to continue its business operations in the foreseeable future. In making this judgement, the management considered a wide range of current and future conditions including the Group's financial position, intentions, profitability of operations and access to financial resources. In the assessment of future conditions, the management performed a stress test exercise using a range of internally developed plausible macroeconomic scenarios and satisfied themselves that the Group's capital and liquidity positions are adequate to meet the regulatory requirements and continue in business for the foreseeable future.

Principal Risk and Uncertainties

1. PRINCIPAL RISK

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 the agreed terms.

Risk description

Credit risk is the greatest material risk faced by the Group, given that 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 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 unfavourable macroeconomic conditions. These risks are described in more detail as a separate principal risk.

COVID-19 has increased uncertainty and caused significant economic disruptions, with the hospitality & leisure, real estate management and development sectors especially adversely affected. Such economic disruptions may deteriorate the financial standing of borrowers and result in increased 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 SME borrowers, the loan review process is conducted within specific sectoral cells, 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.

Since the start of the pandemic the Bank granted 3-month payment holidays on principal and interest payments for individual and MSME customers as well as those corporate customers who have been affected by current situation. The take-up rate per segments were: 32% - corporate, 59% - MSME, 77% - retail and 55% of the total portfolio. In June, the 3-month payment holiday was extended for a further three months to its most vulnerable retail and micro customers, based on specific qualification criteria in order to support borrowers who have lost their main source of income during the COVID-19 pandemic. The take-up rate per segments were: 5% - corporate, 24% - MSME, 29% - retail and 19% of the total portfolio.

Additionally, the Bank actively performs stress testing and scenario analysis in order to check the resilience of borrowers under various stress conditions. Intensive financial monitoring is being carried out to duly identify the borrower's weakened financial and business prospects, aiming to offer restructuring tailored to their individual needs.

The Bank revised and tightened credit underwriting standards across all segments in light of COVID-19.

The Group's credit portfolio is structurally highly diversified across customer types, product types and industry segments, which minimizes credit risk at the Group level. As of 30 June 2020, the retail segment represented 39.3% of the total portfolio, which was split between mortgage and non-mortgage exposures 63.4% and 36.6%, respectively. No single business sector represented more than 8.9% of the total portfolio as of H1 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 30 June 2020, 74.9% 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.

2. PRINCIPAL RISK

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 H1 2020, the local regulator, the National Bank of Georgia ("NBG") reported that 57.1% of total banking sector loans were denominated in foreign currencies. As of the same date, 60.7% 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 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 H1 2020 and the GEL weakened 6.5% YTD. 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. 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. The changes are more relevant to hedged borrowers. For unhedged borrowers, PTI and LTV thresholds will remain significantly more conservative. 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.

3. PRINCIPAL RISK

The Group's performance may be compromised by adverse developments in the economic environment.

A stronger contraction of the economy in Georgia and political instability related to the upcoming parliamentary elections could have a more significant impact on the repayment capacity of the borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Group's portfolio quality and profitability, and would further 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 collateralisation, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in neighbouring countries and Georgia's main trading partners could negatively impact the country's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

Risk description

According to Geostat, real GDP increased by 2.2% in the first quarter of 2020 and fell sharply by 16.6% in April and by 13.5% in May as strict mobility restrictions were introduced. The decline moderated somewhat in June to -7.7%, which can be attributed to the easing of restrictions that began at the end of May 2020. The recovery started from June 2020, but it has been uneven with tourism related sectors remaining deeply negative as borders are still mostly closed with several flights only expected to resume from August 2020

On the other hand, other major sources of inflows displayed much better dynamics: exports fell by 31.3% YoY in May 2020 but moderated to -14.0% YoY in June, while remittance inflows even experienced positive growth, although to some extent that reflected an increase in electronic transfers as physical borders remain closed. Domestic demand dynamics also seem promising with a recovery in imports and a number of high-frequency indicators[1] rebounding strongly after hitting lows in April-May.

Key budget parameters were revised substantially to accommodate a stimulus package to support the economy amid the COVID-19 related fallout. The budget deficit is currently projected at 8.5% of GDP for 2020, which will mostly be financed by external borrowing amounting to USD 1.7 billion (excl. repayments). Additional spending will be diverted both to social spending and to support crisis-affected sectors. More importantly, the secured funding is enough to finance the increased budget deficit, as well as to create an additional buffer of 2.7 billion GEL (5.4% of GDP), which will be available in case of further deterioration of the macro scenario, compared with the baseline one.

As of the end of June 2020, the USD/GEL exchange rate depreciated by 17.0% YoY, while the EUR/GEL exchange rate depreciated by 5.5% YoY. The real effective exchange rate (REER) of the GEL weakened by 2.1% YoY in June 2020 while it appreciated by 1.4% MoM. The NBG continues to sell FX reserves to address the shortage of inflows caused by the pandemic. Also, the central bank has been gradually cutting the monetary policy rate to support GEL lending, while taking into account wider uncertainties and its goal of bringing inflation down closer to its target. Bank credit growth also moderated to 13.9% YoY on FX adjusted terms as of June 2020, compared to 17.1% YoY growth by the end of 1Q 2020. So far, there are no signs of a "credit crunch" that could further exacerbate the impact of crises on the real economy.

Georgia remains vulnerable to further deterioration of the external and internal economic environment, which would further worsen key macroeconomic variables including GDP growth and exchange rate.

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 neighbouring countries, to identify early warning signals indicating imminent economic risks. This system allows the Group to promptly assess significant economic and political occurrences and analyse 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. 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.

4. PRINCIPAL RISK

The Group faces the capital risk of not meeting the minimum regulatory requirements. The Bank is regulated by the National Bank of Georgia (NBG). The regulation requires compliance with certain capital adequacy ratios. The local regulator has the right to impose additional regulations on a bank if it perceives excessive risks and uncertainties in that lender or in the market. In addition, potential GEL depreciation would increase the Bank's risk weighted assets and impairment charges, which in turn would negatively affect the Bank's capital adequacy ratios. A 10% GEL depreciation translates into negative impacts of 0.86 pp, 0.75 pp and 0.58 pp on CET1, Tier 1 and Total Regulatory capital adequacy ratios, respectively.

[1] See TBC Capital's "Tracking the Recovery" series

Risk description

In light of the COVID-19 pandemic, the NBG implemented certain countercyclical measures in relation to capital adequacy requirements:

- Postponing the phasing in of concentration risk and the net GRAPE (General Risk Assessment Program) buffer capital requirements on CET1 capital, planned in March 2020;
- Allowing banks to use the conservation buffer and 2/3 of currency induced credit risk (CICR) buffer;
- Leaving open the possibility of releasing all the remaining pillar 2 buffers (remaining 1/3 CICR, concentration risk and Net Grape buffers) in case of necessity.

Whenever the Bank utilizes conservation and Pillar 2 buffers, it is restricted to make any capital distribution.

If the NBG changes the decision with regards to capital adequacy limits, the banking sector shall have one year to comply with the changes.

In March 2020, the Bank created additional credit loss allowances according to local standards to cover for potential COVID-19 related losses in the amount of 3.1% of the total loan book, which had a 2.19 pp impact on CET1 CAR.

As a result, the Bank's capitalization as of June 2020 stood at 10.0%, 12.7% and 17.2% compared to the regulatory minimum requirement of 6.9%, 8.7% and 13.3% for CET1, Tier 1 and Total capital, respectively. The ratios were well above the new regulatory minimums.

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.

5. PRINCIPAL RISK

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.

The NBG is also responsible for conducting investigations into specific transactions to ensure compliance with Georgian finance laws and regulations. In that regard, the Bank was subject to an inspection by the NBG in connection with certain transactions that took place in 2007 and 2008. The inspection alleged that these transactions between the Bank and certain entities were not in technical compliance with Georgian law regulating conflicts of interest. In February 2019, the Company, the Bank and the NBG issued a joint statement confirming the settlement of this investigation and stating that the Bank had fully complied with the normative economic requirements and limits set by the NBG.

In parallel, the Georgian Office of Public Prosecution launched an investigation into the same matter and has charged the founders of the Bank. The court case with the founders is ongoing. However, the founders have stood down from all their positions within the Group and the Bank.

Under Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios, and regularly to 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.

TBC Bank's subsidiary has been granted a banking licence in Uzbekistan and has launched its banking operations there initially in a pilot mode for "friends and family", with plans to extend its services to the broader population in August 2020. As a result of this project, increased regulatory compliance requirements for the Group are anticipated.

Additionally, as part of the Group's international strategy, the ongoing merger between Yelo Bank (former Nikoil Bank) and TBC Kredit is subject to regulatory approval. If the approval is granted, the Group's intention is to increase its shareholding in the merged entity to over 50% over a four-year period. This will, in turn, increase the Group's exposure to the regulatory environment in Azerbaijan. However the Group is assessing the feasibility of the completion of the transaction.

The Group takes operational steps with the intention of ensuring compliance with the relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 114 in the Group's Reviewed 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.

Regarding the investigations by the NBG in February 2019, the Company, the Bank and the NBG issued a joint announcement confirming the settlement of this investigation. In response to the regulatory review and investigations, the founding shareholders have stood down from their roles within the Group and the Bank. The Company has implemented a mirror board structure strengthening the board with the new appointments. In addition, the Bank, with the assistance of external advisers, undertook a review of the Bank's relevant internal controls systems. Although these reviews did not identify any material deficiencies in the Bank's existing internal controls and compliance systems, they did make certain technical recommendations for further improvements in the Bank's processes and procedures, which are being implemented.

6. PRINCIPAL RISK

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 high 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 (Real Estate) standing at 8.9% of the loan portfolio as of H1 2020. This figure is reasonable and demonstrates adequate credit portfolio diversification.

As of H1 2020, exposure to the 20 largest borrowers stands at 12.3% 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 emerging risk concentrations. Stringent monitoring tools are in place to ensure compliance with the established limits.

The NBG's capital framework includes a concentration buffer under Pillar 2 that helps to ensure that the Group remains adequately capitalised to mitigate concentration risks.

7. PRINCIPAL RISK

Liquidity risk is inherent in the Group's operations.

While the Board believes that 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 commenced 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

Throughout H1 2020, the Group was in compliance with the minimum liquidity requirements set by the NBG. This is in addition to the Basel III guidelines, under which a conservative approach was applied to deposit withdrawal rates, depending on the concentration of client groups. From October 2019, the Bank's foreign currency mandatory reserve was fully categorized as a high quality liquid asset (HQLA) for regulatory LCR calculation purposes, which had a positive effect on the LCR ratio. In September 2019, the NBG also introduced a Net Stable Funding Ratio.

As of 30 June 2020, the net loan to deposits plus international financial institution funding ratio stood at 105.3%, the liquidity coverage ratio at 124.8%, and the net stable funding ratio at 127.5%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

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

- opened USD/GEL FX swap lines with unlimited amounts;
- removed minimum requirement on GEL, LCR (>=75%) for one year period;
- allowed pledging a business loans for liquidity support purposes.

If necessary, the NBG will implement following measures:

- decreasing LCR limits;
- decreasing mandatory reserve requirements in foreign currency.

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. The Board believes 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).

8. PRINCIPAL RISK

Any decline in the Group's net interest income or net interest margin 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 national 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 H1 2020, the NIM decreased by 1.3 pp YoY to 4.7%. The decrease was mainly driven by the market pressure on funding rate in local currency and the introduction of the responsible lending regulation from 1 January 2019, limiting the Bank's ability to lend money to higher-yield retail customers, as well as other factors such as foreign currency exchange rate depreciation.

The Group manages its direct exposure to the LIBOR and local refinancing rates through respective limits and appropriate pricing. As of 30 June 2020, GEL 5,988 million in assets (30%) and GEL 4,143 million in liabilities (24%) were floating, related to the LIBOR/FED/ ECB (deposit facility) rates, and as per internal judgment, whereas GEL 5,526 million of assets (28%) and GEL 3,595 million of liabilities (21%) were floating, related to the NBG's refinancing rate. The reprising maturity of floating liabilities within a one-year horizon exceeds the one of floating assets.

Risk mitigation

In 2020, the pressure on NIM is expected be partially offset by our increased focus on cost efficiency, while in the medium term, the increase in fee and commission income and other operating income will support the Bank's profitability.

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. PRINCIPAL RISK

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.

Erroneous statement in TBC Bank Group PLC's Annual Report and Accounts for year ended 31 December 2019.

The following statement was included on Page 58 of the Strategic Report of the above accounts:

"We are conducting external audits and threat intelligence led cyber-attack readiness exercises on a regular basis, which provides us with a practical view of our information and cyber security position. It also gives us a benchmark against international best practices and helps to define readiness levels against real-world cyber threats. We are using it as one of the inputs in our continuous improvement cycle. The latest review was conducted in 2019 by Deloitte UK, which confirmed that our critical systems ensure high reliability against cyber threats."

We have been alerted to the fact that the last sentence, which refers to 'Deloitte UK's findings, is erroneous. Whilst Deloitte LLP did undertake a threat intelligence led cyber-attack readiness exercise, their findings were materially different to those presented in our Annual Report and, for the avoidance of doubt, their review did not confirm that our critical systems ensure high reliability against cyber threats. The review identified a number of security weaknesses and made recommendations for remedial actions, which the Bank is now implementing. Further, Deloitte LLP's review did not constitute any form of external audit or other assurance review.

Risk description

During the pandemic, the Bank's dependency on its IT systems further increased as around 95% of the Bank's back office employees are working remotely. Remote working practices may result in increased system and behavioural risks.

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

The Group actively monitors, detects and prevents risks arising from cyber-attacks. Staff members monitor developments on both the local and international markets to increase awareness of emerging forms of cyber-attacks. Intrusion prevention and Distributed Denial of Service (DDoS) protection systems are in place to protect the Group from external cyber-threats. Security incident and event monitoring systems, in conjunction with the respective processes and procedures, are in place to handle cyber-incidents effectively.

Processes are continuously updated and enhanced to respond to new potential threats. A data recovery policy is in place to ensure business continuity in case of serious cyber-attacks. In addition, an Information Security Steering Committee is actively involved in improving information security and business continuity management processes to minimise information security risks.

As a result of the COVID-19 pandemic, the Bank activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats, and our security team provides effective oversight of teleworking channels. Additionally, awareness program and communication strategy was refreshed to increase the effectiveness of remote working capabilities.

10. PRINCIPAL RISK

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 cash. Internal fraud events arise from actions committed by the Group's employees, and such events happen less frequently.

During the reporting period, the Group faced only a few instances of fraud, none of which had a material impact upon the Group's profit and loss statement. Nonetheless, fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain funds. Fraud threats are relatively elevated in relation to COVID-19 due to the potential growth of external scams, the economic downturn and other related factors. 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. PRINCIPAL RISK

The Group is currently exposed to reputational risk.

The media coverage in Georgia surrounding the founders of the Bank represents a risk to the reputation of the Group.

Risk description

There are principal risks that may arise from negative publicity surrounding TBC Bank and its public perception, as well as that of the banking sector in Georgia as a whole. In particular, media exposure in relation to TBC Bank and its founders has threatened to have an adverse impact on the Bank's operations. An inability to manage such reputational risks could have an adverse impact upon the Bank and its stakeholders, including its clients, employees and shareholders.

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 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 it and elevate it to the attention of the Board before escalation. Dedicated internal and external marketing and communications teams are in place which have the responsibility to monitor risks, develop scenarios and create respective action plans.

12. PRINCIPAL RISK

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. Further, 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 assesses 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.

In light of the COVID-19 pandemic, the Group has reviewed its strategic priorities given an increased pressure on capital and people as well as emerging new opportunities. While the main themes have not changed, the Group has prioritized digital channels, customer centricity, data analytics and international expansion for the next three years ahead.

13. PRINCIPAL RISK

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 highly competent 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, COVID-19 has created additional HR challenges in relation to safeguarding employees' health and wellbeing, maintaining high efficiency levels as well as 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 has set up an IT 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 employees in different fields.

In response to the COVID-19 pandemic, we have promptly moved our back-office employees to a remote working practise by equipping them with all the necessary IT infrastructure. At the same time, to ensure effective internal communication, 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 addition, in order to promote our corporate culture, the Bank's internal Facebook group has become more active by posting employee profiles and sharing success stories.

In relation to our front-office employees, we have introduced appropriate safety and social distancing measures in our branches and offices in line with WHO recommendations. We have also introduced two-week shifts for the front office staff to mitigate the pandemic risk. In addition, financial benefits were given to employees with high-risk exposure.

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 risks have the potential to increase in significance over time and could have the same impact on the Group as the principal risks.

1. EMERGING RISK

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

TBC Bank's subsidiary, TBC Bank in Uzbekistan, obtained a banking licence in April 2020 and has launched its banking operations in Uzbekistan, initially in a pilot mode for "friends and family", with plans to extend its services to the broader population in August 2020. The total amount of investment in 2020 from all shareholders is expected to amount to about US$ 40 million. TBC Group will hold around 51%. This investment exposes the Group to Uzbekistan's macro-economic political and regulatory environments, including exposure to risks arising from credit, market, operational and capital adequacy risks as well as risks related to COVID-19 in Uzbekistan. In addition, the Group is considering the feasibility of its expansion plans in Azerbaijan.

Currently, the Group's business activities are mainly concentrated in Georgia, but international activities are expected to contribute to around 30% of the Group's loan book over the medium to long-term.

Risk description

The risk posed by the operating environment in Uzbekistan and Azerbaijan may change the Group's risk profile as a result of this international expansion.

According to the latest IMF forecasts, Uzbekistan is a rapidly developing economy with over 5% real GDP growth projected in the medium term. 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 new 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. As for the impact of COVID-19, per latest World Bank projections, Uzbekistan GDP is expected to still demonstrate positive growth of 1.5% in 2020. As for the recovery in 2021, it is expected to be a solid 6.6%.

Azerbaijan is a small, open economy with a high reliance on oil exports. The economy of Azerbaijan started to recover in 2017 after a contraction in 2016 that was caused by the significant decline in oil prices in the period 2014-2016. The combination of a slump in oil prices and COVID-19 related restrictions has again triggered recession in Azerbaijan and, according to the latest World Bank estimates, Azerbaijani GDP is expected to drop by 2.6% in 2020, before recovering by 2.2% in 2021. Furthermore, potential political instability and unfavourable developments in state regulations can also negatively affect the Group's business in Azerbaijan.

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 subsequently to lower credit risk. The Group will partner with international financial institutions that 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.

The Group has been operating in Azerbaijan through a small microfinance organization for a number of years, which provides experience and knowledge of the local banking environment. In addition, our exposure in Azerbaijan is limited before the option is exercised. The Group will exercise the option only after it becomes comfortable with developments, including the operating environment. The management will focus on establishing a strong risk management function to ensure that all risks are managed and mitigated properly. The Group will leverage its strong risk management expertise to establish sound risk management practices in new jurisdictions.

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

2. EMERGING RISK

The Group is exposed to risks arising from climate change.

Risk description

The risks associated with climate change have both a physical impact arising from more frequent and severe weather changes and a transitional impact that may entail extensive policy, legal and technological changes to reduce the ecological footprint of 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 the 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, 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 (the "EMS") and promotes 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. Our Environmental Policy is fully compliant with Georgian environmental legislation and follows international best practices (the full policy is available at www.tbcbankgroup.com).

3. EMERGING RISK

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 on 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 the implications of such a 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. TBC is proactively working with industry participants, such as the NBG, the Banking Association of Georgia and IFI lenders to facilitate orderly transition to other reference rates. The Group is starting its efforts to raise awareness of the transition, both internally and externally, to ensure that staff have all the necessary knowledge and tools to facilitate the transition and that all of the Group's customers are treated fairly. We actively monitor international as well as local transition-related developments to regulate and align the Group's transition process with market practice.

4. EMERGING RISK

The spread of coronavirus (COVID-19) comes with unpredictable economic and social consequences.

Risk description

Although COVID-19 has been contained relatively successfully in Georgia, developments in some countries still indicate the high risk of a return of the virus and repeated mobility restrictions. This scenario could severely damage the recovery dynamics and result in a much deeper recession than assumed in the baseline scenario. In such a scenario, the macro environment worsens even further with a much stronger decrease in economic growth, increased unemployment, depreciation of the GEL, decreased commodity and real estate prices, impaired creditworthiness of the private sector, and higher financial and non-financial risks to the Group.

According to the state budget approved in June, the deficit is currently projected at 8.5% of GDP for 2020, mostly to be financed by external borrowing of around USD 1.6 billion. Additional spending will be diverted both to social spending and to support crisis-affected sectors. In the event of an adverse scenario developing, the economic hit could be partially mitigated by the utilization of the additional fiscal buffer of GEL 2.7 billion (5.4% of GDP), together with further likely support from international donors. Higher stimulus would likely be reflected in larger direct support of the most vulnerable sectors and individuals in the form of tax cuts, subsidies and social transfers as well as possibly in stronger capital spending.

Together with international support, it is also important to take into account that there were no signs of overheating of the Georgian economy during the pre-distress period, including the housing market. Therefore, once the virus is contained, most industries should recover relatively quickly, although the hospitality sector is likely to lag behind for an additional period.

Risk mitigation

The Group actively analyses adverse scenarios and their economic consequences. As part of the stress testing exercise, we have analysed multiple scenarios to ensure that the Group has sufficient liquidity and capital to meet updated regulatory capital and liquidity requirements. The NBG implemented countercyclical measures to support the financial stability of the banking system by relaxing capital and liquidity requirements.

In addition we have close communications with our business customers, discussing their strategies and sharing our outlook on the economy and its key sectors.

Also, we have close communications with our business customers discussing their strategies and sharing our outlook on the economy and its key sectors.

Statement of Directors' Responsibilities

Each of the Directors (the names of whom are set out below) confirm that to the best of their knowledge that:

- The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union;
- The interim management report herein includes a fair review of the information required by Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R namely:
  - an indication of important events that have occurred during the six months ended 30 June 2020 and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - any related party transactions in the six months ended 30 June 2020 that have materially affected the financial position or performance of TBC Bank during that period and any changes in the related party transactions described in the last Annual Report that could have a material effect on the financial position or performance of TBC Bank in the six months ended 30 June 2020.

Signed on behalf of the Board by:

Vakhtang Butskhrikidze

CEO

17 August 2020

Giorgi Shagidze

Deputy CEO, CFO

17 August 2020

TBC Bank Group PLC Board of Directors:

Chairman
Nikoloz Enukidze

Executive Directors
Vakhtang Butskhrikidze (CEO)
Giorgi Shagidze (CFO)

Non-executive Directors
Nicholas Dominic Haag
Maria Luisa Cicognani
Tsira Kemularia
Eric J. Rajendra
Arne Berggren
Abhijit Akerkar

TBC BANK GROUP PLC

Condensed Consolidated Interim Financial Statements (Unaudited)

30 June 2020

CONTENTS

Independent review report to TBC Bank Group plc

Report on the Unaudited Condensed Consolidated Interim Financial Statements

Our conclusion

We have reviewed TBC Bank Group plc's Unaudited Condensed Consolidated Interim Financial Statements (the "interim financial statements") in the 2Q and 1H 2020 Financial Results of TBC Bank Group plc for the 6 month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed Consolidated Interim Statement of Financial Position as at 30 June 2020;
- the Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the period then ended;
- the Condensed Consolidated Interim Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Interim Statement of Changes in Equity for the period then ended; and
- the Notes to the Condensed Consolidated Interim Financial Statements.

The interim financial statements included in the 2Q and 1H 2020 Financial Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.
As disclosed in note 2.1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2Q and 1H 2020 Financial Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2Q and 1H 2020 Financial Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.
Our responsibility is to express a conclusion on the interim financial statements in the 2Q and 1H 2020 Financial Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Statements Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.
A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.
We have read the other information contained in the 2Q and 1H 2020 Financial Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
17 August 2020

TBC Bank Group PLC
Condensed Consolidated Interim Statement of Financial Position

In thousands of GEL	Note	30 June 2020 (Unaudited)	31 December 2019*	31 December 2018*
ASSETS				
Cash and cash equivalents	4	981,803	1,003,583	1,166,911
Due from other banks	5	30,879	33,605	47,316
Mandatory cash balances with the National Bank of Georgia	6	1,794,010	1,591,829	1,422,809
Loans and advances to customers	7	13,105,988	12,349,399	10,038,452
Investment securities measured at fair value through other comprehensive income		1,082,520	985,293	1,005,239
Bonds carried at amortized cost		1,335,415	1,022,684	654,203
Net investments in lease		270,172	256,660	203,802
Investment properties		70,716	72,667	84,296
Current income tax prepayment		36,703	25,695	2,116
Deferred income tax asset	22	7,470	2,173	2,097
Other financial assets		174,378	133,736	167,518
Other assets		258,349	255,712	192,792
Premises and equipment	8	345,064	334,728	315,502
Right of use assets		62,865	59,693	-
Intangible assets	8	194,689	167,597	109,220
Goodwill		60,296	61,558	31,286
Investments in associates		2,112	2,654	2,432
TOTAL ASSETS		**19,813,429**	**18,359,266**	**15,445,991**
LIABILITIES				
Due to credit institutions	9	4,403,406	3,593,901	3,031,503
Customer accounts	10	10,420,330	10,049,324	9,352,142
Other financial liabilities		138,749	113,609	98,714
Current income tax liability		692	1,634	63
Debt securities in issue	12	1,396,141	1,213,598	13,343
Deferred income tax liability	22	5	18,888	19,793
Provisions for liabilities and charges	11	25,558	23,128	18,767
Other liabilities		80,557	95,161	104,337
Lease Liabilities		65,937	59,898	-
Subordinated debt	13	628,649	591,035	650,919
TOTAL LIABILITIES		**17,160,024**	**15,760,176**	**13,289,581**
EQUITY				
Share capital	14	1,682	1,682	1,650
Shares held by trust		(34,451)	(27,517)	-
Share premium		848,459	848,459	796,854
Retained earnings		2,029,545	1,961,172	1,531,561
Group reorganisation reserve		(162,166)	(162,166)	(162,166)
Share based payment reserve	15	(31,808)	(17,803)	(16,294)
Fair value reserve		(1,492)	(6,476)	8,680
Cumulative currency translation reserve		(5,685)	(6,850)	(6,937)
Net assets attributable to owners		**2,644,084**	**2,590,501**	**2,153,348**
Non-controlling interest (NCI)		**9,321**	**8,589**	**3,062**
TOTAL EQUITY		**2,653,405**	**2,599,090**	**2,156,410**
TOTAL LIABILITIES AND EQUITY		**19,813,429**	**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 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 financial statements on pages 58 to 121 were approved by the Board of Directors on 17 August 2020 and signed on its behalf on 17 August 2020 by:

Vakhtang Butskhrikidze — Chief Executive Officer

Giorgi Shagidze — Chief Financial Officer

The notes set out on pages 58 to 121 form an integral part of these financial statements.

TBC Bank Group PLC
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

In thousands of GEL	Note	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Interest income	18	787,893	678,216
Interest expense	18	(408,091)	(290,777)
Net gains on currency swaps	18	12,522	11,147
Net interest income		**392,324**	**398,586**
Fee and commission income	19	138,752	129,885
Fee and commission expense	19	(55,683)	(44,544)
Net fee and commission income		**83,069**	**85,341**
Net insurance premiums earned		26,618	15,992
Net insurance claims incurred and agents' commissions		(16,337)	(7,925)
Insurance Profit		**10,281**	**8,067**
Net gains from trading in foreign currencies		49,406	34,987
Net (losses)/gains from foreign exchange translation		(1,627)	9,214
Net losses from derivative financial instruments		(20)	(245)
Net (losses)/gains from disposal of investment securities measured at fair value through other comprehensive income		(1,202)	147
Other operating income	20	7,977	7,810
Share of profit of associates		90	341
Other operating non-interest income		**54,624**	**52,254**
Credit loss allowance for loan to customers	7	(249,216)	(66,483)
(Charge to)/recovery of credit loss allowance for net investments in leases		(4,278)	178
Credit loss allowance for performance guarantees and credit related commitments	11	(797)	(392)
(Charge to)/recovery of credit loss allowance for other financial assets		(4,222)	580
Credit loss allowance for financial assets measured at fair value through other comprehensive income		(538)	(350)
Operating profit after expected credit losses		**281,247**	**477,781**
Losses from modifications of financial instruments	7	**(34,170)**	**-**
Staff costs		(114,006)	(116,639)
Depreciation and amortisation	8	(32,215)	(32,124)
Recovery of provision for liabilities and charges		77	1,441
Administrative and other operating expenses	21	(56,016)	(64,575)
Operating expenses		**(202,160)**	**(211,897)**
Profit before tax		**44,917**	**265,884**
Income tax credit/(expense)	22	24,283	(12,344)
Profit for the period		**69,200**	**253,540**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve		4,984	3,999
Exchange differences on translation to presentation currency		1,165	457
Other comprehensive income for the period		**6,149**	**4,456**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**75,349**	**257,996**

In thousands of GEL	Note	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Profit is attributable to:			
- Shareholders of TBCG		67,625	253,235
- Non-controlling interest		1,575	305
Profit for the period		**69,200**	**253,540**
Total comprehensive income is attributable to:			
- Shareholders of TBCG		73,793	257,687
- Non-controlling interest		1,556	309
Total comprehensive income for the period		**75,349**	**257,996**
Earnings per share for profit attributable to the owners of the Group:			
- Basic earnings per share	16	1.24	4.64
- Diluted earnings per share	16	1.23	4.62

TBC Bank Group PLC
Condensed Consolidated Interim Statement of Changes in Equity

In thousands of GEL	Note	Share capital	Shares held by trust	Share premium	Group reorganisation reserve	Share based payments reserve	Revaluation reserve for premises	Fair value reserve	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Net assets attributable to owners											
Balance as of 31 December 2018		**1,650**	-	**796,854**	**(162,166)**	**(16,294)**	**57,240**	**8,680**	**(6,937)**	**1,523,879**	**2,202,906**	**3,062**	**2,205,968**
Change in accounting policy IAS 16		-	-	-	-	-	(57,240)	-	-	7,682	**(49,558)**	-	**(49,558)**
Balance as of 31 December 2018*		**1,650**	**-**	**796,854**	**(162,166)**	**(16,294)**	**-**	**8,680**	**(6,937)**	**1,531,561**	**2,153,348**	**3,062**	**2,156,410**
Profit for the six months ended 30 June 2019 (unaudited)		-	-	-	-	-	-	-	-	253,235	**253,235**	305	**253,540**
Other comprehensive income/(loss) for six months ended 30 June 2019 (unaudited)		-	-	-	-	-	-	3,999	453	-	**4,452**	4	**4,456**
Total comprehensive income/(loss) for six months ended 30 June 2019 (unaudited)		-	-	-	-	-	**-**	**3,999**	**453**	**253,235**	**257,687**	**309**	**257,996**
Share issue	14	22	-	34,919	**-**	(34,941)	-	-	-	-	**-**	-	**-**
Share based payment expense	15	-	-	-	**-**	13,267	-	-	-	-	**13,267**	(25)	**13,242**
Business Combination		-	-	-	-	-	-	-	-	-	**-**	838	**838**
Purchase of additional interest from NCI		-	-	-	-	-	-	-	-	-	**-**	(104)	**(104)**
Dividends declared		-	-	-	-	-	-	-	-	(108,622)	**(108,622)**	-	**(108,622)**
Balance as of 30 June 2019 (unaudited)*		**1,672**	**-**	**831,773**	**(162,166)**	**(37,968)**	**-**	**12,679**	**(6,484)**	**1,676,174**	**2,315,680**	**4,080**	**2,319,760**
Balance as of 31 December 2019		**1,682**	**(27,517)**	**848,459**	**(162,166)**	**(17,803)**	**56,374**	**(6,476)**	**(6,850)**	**1,953,364**	**2,639,067**	**8,589**	**2,647,656**
Change in accounting policy IAS 16		-	-	-	-	-	(56,374)	-	-	7,808	**(48,566)**	-	**(48,566)**
Balance as of 31 December 2019 restated*		**1,682**	**(27,517)**	**848,459**	**(162,166)**	**(17,803)**	**-**	**(6,476)**	**(6,850)**	**1,961,172**	**2,590,501**	**8,589**	**2,599,090**
Profit for the six months ended 30 June 2020 (unaudited)		-	-	-	-	-	-	-	-	67,625	**67,625**	1,575	**69,200**
Other comprehensive income/(loss) for six months ended 30 June 2020 (unaudited)		-	-	-	-	-	-	4,984	1,184	-	**6,168**	(19)	**6,149**

In thousands of GEL	Note	Share capital	Shares held by trust	Share premium	Group reorganisation reserve	Share based payments reserve	Revaluation reserve for premises	Fair value reserve	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Net assets attributable to owners											
Total comprehensive income/(loss) for six months ended 30 June 2020 (unaudited)		**-**	**-**	**-**	**-**	**-**	**-**	**4,984**	**1,184**	**67,625**	**73,793**	**1,556**	**75,349**
Share based payment expense	15	-	-	-	-	6,063	-	-	-	-	**6,063**	(28)	**6,035**
Delivery of shares to employees under SBP scheme		-	18,559	-	-	(20,068)	-	-	-	-	**(1,509)**	-	**(1,509)**
Share buy-back		-	(25,493)	-	-	-	-	-	-	-	**(25,493)**	-	**(25,493)**
Other movements		-	-	-	-	-	-	-	(19)	748	**729**	(796)	**(67)**
Balance as of 30 June 2020 (unaudited)		**1,682**	**(34,451)**	**848,459**	**(162,166)**	**(31,808)**	-	**(1,492)**	**(5,685)**	**2,029,545**	**2,644,084**	**9,321**	**2,653,405**

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

Condensed Consolidated Interim Statement of Cash Flows

In thousands of GEL	Note	Six months ended 30 June 20 (Unaudited)	Six months ended 30 June 2019 (Unaudited)
Cash flows from/(used in) operating activities			
Interest received		579,414	621,472
Interest received on currency swaps		12,522	11,147
Interest paid		(404,923)	(291,963)
Fees and commissions received		131,347	127,685
Fees and commissions paid		(56,054)	(44,370)
Insurance and reinsurance received		43,373	18,560
Insurance claims paid		(13,458)	(9,727)
Income received from trading in foreign currencies		49,406	46,119
Other operating income received		2,860	11,500
Staff costs paid		(120,706)	(123,342)
Administrative and other operating expenses paid		(61,860)	(81,397)
Income tax paid		(11,983)	(30,900)
Cash flows from operating activities before changes in operating assets and liabilities		**149,938**	**254,784**
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		(183,202)	(302,690)
Loans and advances to customers		(357,130)	(385,945)
Net investments in lease		11,008	(3,498)
Other financial assets		(33,976)	19,610
Other assets		10,847	2,869
Net change in operating liabilities			
Due to other banks		85,357	276,076
Customer accounts		(88,078)	134,334
Other financial liabilities		11,915	23,487
Other liabilities and provision for liabilities and charges		3,838	9,607
Net cash (used in)/from operating activities		**(389,483)**	**28,634**
Cash flows from/(used in) investing activities			
Acquisition of investment securities measured at fair value through other comprehensive income		(251,486)	(101,119)
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income		180,702	210,174
Acquisition of bonds carried at amortised cost		(495,945)	(240,420)
Proceeds from redemption of bonds carried at amortised cost		171,137	126,113
Acquisition of premises, equipment and intangible assets		(74,550)	(51,490)
Proceeds from disposal of premises, equipment and intangible assets	8	24,172	11,023
Proceeds from disposal of investment property		3,128	9,508
Acquisition of subsidiaries and associates		936	(14,569)
Net cash used in investing activities		**(441,906)**	**(50,780)**
Cash flows from/(used in) financing activities			
Proceeds from other borrowed funds		1,615,016	553,781
Redemption of other borrowed funds		(966,746)	(938,535)
Repayment of principal of lease liabilities		(5,420)	(1,367)
Redemption of subordinated debt		-	(8,576)
Proceeds from debt securities in issue	12	171,531	820,708
Redemption of debt securities in issue		(12,569)	(5,805)
Net cash flows from financing activities		**801,812**	**420,206**
Effect of exchange rate changes on cash and cash equivalents		**7,797**	**63,373**
Net (decrease)/increase in cash and cash equivalents		**(21,780)**	**461,433**
Cash and cash equivalents at the beginning of the period	4	1,003,583	1,166,911
Cash and cash equivalents at the end of the period	4	**981,803**	**1,628,344**

1 Introduction

Principal activity. TBC Bank Group PLC ("TBCG" or "Group") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank (hereafter the "Bank") as at 30 June 2020 (31 December 2019: 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. The Group's list of subsidiaries is provided below.

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", Note14). 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. In 2018, the Bank launched its fully-digital bank, Space. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG").

The Group had 156 branches and 7,854 employees mainly within Georgia as at 30 June 2020 (30 June 2019: 146 branches and 7,266 employees).

As at 30 June 2020 and 31 December 2019, 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 at 30 June 2020 and 31 December 2019, the Group had no ultimate controlling party. Other includes individual as well as corporate shareholders.

Shareholders	30 June 2020 Ownership interest	31 December 2019 Ownership interest
European Bank for Reconstruction and Development	8.04%	8.04%
Dunross & Co.	7.06%	6.61%
Schroder Investment Management	5.52%	6.48%
JPMorgan Asset Management	4.35%	6.22%
Badri Japaridze*	6.00%	6.00%
Liquid Crystal International N.V. LLC	5.04%	5.55%
Mamuka Khazaradze*	3.60%	4.71%
Other	60.39%	56.39%
Total	**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%) and Badri Japaridze has beneficial ownership of 6.00%, (2019: 6.00%).

1 Introduction (Continued)

The condensed consolidated interim financial statements ("financial statements") include the following principal subsidiaries:

Subsidiary Name	Proportion of voting rights and ordinary share capital 30 June 2020	Proportion of voting rights and ordinary share capital 31 December 2019	Principal place of business or incorporation	Year of incorporation	Industry
JSC TBC Bank	99.88%	99.88%	Tbilisi, Georgia	1992	Banking
United Financial Corporation JSC	99.53%	99.53%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	100.00%	100.00%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
TBC Pay LLC	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
TBC Invest LLC	100.00%	100.00%	Ramat Gan,Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
JSC TBC Insurance	100.00%	100.00%	Tbilisi, Georgia	2014	Insurance
Redmed LLC	100.00%	100.00%	Tbilisi, Georgia	2019	Insurance
TBC International LLC	100.00%	100.00%	Tbilisi, Georgia	2019	Asset management
Swoop JSC	100.00%	100.00%	Tbilisi, Georgia	2010	Retail Trade
Online Tickets LLC	55.00%	55.00%	Tbilisi, Georgia	2015	Computer and Software Services
TKT UZ	75.00%	75.00%	Tashkent, Uzbekistan	2019	Retail Trade
My.Ge LLC	65.00%	65.00%	Tbilisi, Georgia	2019	E-Commerce
Mypost LLC	100.00%	100.00%	Tbilisi, Georgia	2019	Postal Service
Billing Solutions LLC	51.00%	51.00%	Tbilisi, Georgia	2019	Software Services
Vendoo LLC (Geo)	100.00%	100.00%	Tbilisi, Georgia	2019	Retail Leasing
Allproperty.ge LLC	90.00%	90.00%	Tbilisi, Georgia	2013	Real estate management
F Solutions LLC	100.00%	100.00%	Tbilisi, Georgia	2019	Software Services
Support LLC	100.00%	N/A	Tashkent, Uzbekistan	2020	Asset Management
Inspired LLC	51.00%	51.00%	Tashkent, Uzbekistan	2011	Processing
VENDOO LLC (UZ Leasing)	100.00%	100.00%	Tashkent, Uzbekistan	2019	Retail Leasing
TBC Bank JSCB	100.00%	N/A	Tashkent, Uzbekistan	2020	Banking

The consolidated financial statements include the following associates:

Company Name	Proportion of voting rights and ordinary share capital held as of 30 June 2020	Proportion of voting rights and ordinary share capital held as of 30 June 2019	Principal place of business or incorporation	Year of incorpo-ration	Industry
JSC Credit Information Bureau Creditinfo Georgia	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation

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 due to immateriality. A full list of these undertakings, the country of incorporation is set out below.

1 Introduction (Continued)

Company Name	Proportion of voting rights and ordinary share capital: 30 June 2020	Proportion of voting rights and ordinary share capital: 31 December 2019	Principal place of business or incorporation	Year of incorpo-ration	Industry
TBC Invest International Ltd	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[35]	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Natural Products of Georgia LLC	25.00%	25.00%	Tbilisi, Georgia	2001	Trade, Service
Mobi Plus JSC	14.81%	14.81%	Tbilisi, Georgia	2009	Data monitoring and processing
GRDC	1.75%	1.75%	Tbilisi, Georgia	2008	Investment Real Estate
Georgian Card JSC	0.15%	0.15%	Tbilisi, Georgia	1997	Plastic Card Services
Georgian Securities Central Depositor	0.05%	0.05%	Tbilisi, Georgia	1999	Finance, Service
JSC Givi Zaldastanishvili American Academy In Georgia	14%	14.48%	Tbilisi, Georgia	2001	Education
United Clearing Centre	18.75%	18.75%	Tbilisi, Georgia	2008	Clearing Centre
Banking and Finance Academy of Georgia	16.67%	16.67%	Tbilisi, Georgia	1998	Education
Tbilisi's City JSC	1.80%	1.80%	Tbilisi, Georgia	2007	Education
TBC Trade	100.00%	100.00%	Tbilisi, Georgia	2008	Trade, Service
Mineral Oil Distribution Corporation JSC	9.90%	9.90%	Tbilisi, Georgia	2009	Data monitoring and processing

2 Summary of Significant Accounting Policies, Critical Accounting Estimates, and Judgements in Applying Accounting Policies

2.1 Basis of preparation

These interim financial statements for the six months ended 30 June 2020 for TBC Bank Group PLC and its subsidiaries (together referred to as the "Group") has been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted by the European Union. These interim financial statements do not include all the notes of the type normally included in an annual consolidated financial statements. Accordingly, this report is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with IFRS as adopted by the European Union.

The interim financial statements are presented in thousands of Georgian Lari ("GEL thousands"), except per-share amounts and unless otherwise indicated.

These interim financial statements have been reviewed, not audited. Auditor's review conclusion is included in this report.

Going Concern. The Board of Directors of TBC Bank Group PLC has prepared these interim 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.

***Foreign currency translation**.* At 30 June 2020 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 3.0552 (31 December 2019: USD 1 = GEL 2.8677); EUR 1 = GEL 3.4466 (31 December 2019: EUR 1 = GEL 3.2095); GBP 1 = GEL 3.7671 (31 December 2019: GBP 1 = GEL 3.7593), AZN 1 = GEL 1.7972 (31 December 2019: AZN 1 = GEL 1.7377), UZS 1000 = GEL 0.3003 (31 December 2019: UZS 1000 = GEL 0.3098),

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this interim financial statements as compared with the annual consolidated financial statements of the Group for the year ended 31 December 2019.

Interim period tax measurement. Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Amendment to IFRS 16, Leases (COVID-19-Related Rent Concessions). In May 2020, the IASB issued an amendment to IFRS 16 to provide an option for lessees to account for rent concessions occurring as a direct consequence of the COVID-19 pandemic as if they were not lease modifications. The amendment is effective from 1 June 2020. The group has adopted this option, and the effect on the Group's financial statements is not material.

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 where 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.

2.1 Basis of preparation (Continued)

Effects on respective periods are disclosed below:

In thousands of GEL	31 December 2019	Change in accounting policy	31 December 2019 Restated
Assets:			
Premises, Equipment and Intangible Assets	385,736	(51,008)	334,728
Liabilities:			
Deferred income tax liability	21,332	(2,444)	18,888
Equity:			
Retained earnings	1,953,364	7,808	1,961,172
Revaluation reserve for premises	56,374	(56,374)	-

In thousands of GEL	31 December 2018	Change in accounting policy	31 December 2018 Restated
Assets:			
Premises, Equipment and Intangible Assets	367,503	(52,001)	315,502
Liabilities:			
Deferred income tax liability	22,237	(2,444)	19,793
Equity:			
Retained earnings	1,523,879	7,682	1,531,561
Revaluation reserve for premises	57,240	(57,240)	-

2.2 Critical accounting estimates and judgements in applying accounting policies

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 24. 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:

In thousands of GEL	**30 June 2020**	**31 December 2019**
20% decrease in SICR thresholds	Increase impairment allowance on loans and advances by GEL 1,046 Change of the Bank's cost of credit risk ratio by 1 basis points	Increase impairment allowance on loans and advances by GEL 1,954 Change of the Bank's cost of credit risk ratio by 2 basis points
10% increase in Stage 2 exposures	Increase impairment allowance on loans and advances by GEL 3,145 Change of the Bank's cost of credit risk ratio by 3 basis points	Increase impairment allowance on loans and advances by GEL 2,380 Change of the Bank's cost of credit risk ratio by 2 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	**30 June 2020**	**31 December 2019**
10% increase (decrease) in PD estimates	Increase (decrease) impairment allowance on loans and advances by GEL 30,484 (GEL 36,520) Change of the Bank's cost of credit risk ratio by 23 (28) basis points	Increase (decrease) impairment 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
10% increase (decrease) in LGD estimates	Increase (decrease) impairment allowance on loans and advances by GEL 43,646 (GEL 45,761) Change of the Bank's cost of credit risk ratio by 33 (35) basis points	Increase (decrease) impairment 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

Main drivers for COVID-19 related provision charges were an increase in PD parameter as a result of an application of macroeconomic overlay, increased haircut applied to the market value of collateral to reflect the expected decrease in real estate prices and prepayment rates downward adjustment for future one-year period.

3 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 2019 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group.

Major new IFRSs

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). 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 recognizing 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 recognizing the loss immediately The Group is currently assessing the impact of the interpretation on its financial statements.

4 Cash and Cash Equivalents

In thousands of GEL	30 June 2020	31 December 2019
Cash on hand	659,556	650,700
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	52,906	35,132
Correspondent accounts and overnight placements with other banks	258,076	191,420
Placements with and receivables from other banks with original maturities of less than three months	11,365	126,360
Total gross amount of cash and cash equivalents	**981,903**	**1,003,612**
Less: Credit loss allowance	(100)	(29)
Total carrying amount of cash and cash equivalents	**981,803**	**1,003,583**

As 30 June 2020, 89% of the correspondent accounts and overnight placements with other banks was placed with OECD (The Organization for Economic Co-operation and Development) banking institutions (31 December 2019: 85%).

As 30 June 2020, GEL 11,366 thousand was placed on an interbank term deposits with one Georgian bank and none with the OECD banks (31 December 2019: GEL11,348 thousand with one non-OECD bank and GEL 115,012 thousand with two OECD banks).

5 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and do not represent past due amounts at the 30 June 2020 and 31 December 2019. As 30 June 2020, GEL 10,979 thousand (31 December 2019: GEL 11,836 thousand) was kept on deposits as restricted cash. Refer to Note 25 for the estimated fair value of amounts due from other banks.

As 30 June 2020, the Group had no loan issued to any bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (31 December 2019: none).

6 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 8.25%, (0.25%) and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2020 (2019: 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 Rating (IDRs) at 'BB' and has revised the Outlook to Negative from Stable. The issue ratings on Georgia's senior unsecured foreign- and local-currency bonds are also affirmed at’ BB’. The Country Ceiling is affirmed at ’BBB- ‘and the Short-term Foreign and Local- Currency IDRS are affirmed at ‘B’.

7 Loans and Advances to Customers

In thousands of GEL	30 June 2020	31 December 2019
Corporate loans	5,070,563	4,660,473
Consumer loans	1,962,108	1,884,006
Mortgage loans	3,396,615	3,169,197
Loans to micro, small and medium enterprises	3,206,106	2,948,279
Total gross loans and advances to customers	**13,635,392**	**12,661,955**
Less: credit loss allowance	(529,404)	(312,556)
Total carrying amount of loans and advances to customers	**13,105,988**	**12,349,399**

7 Loans and Advances to Customers (Continued)

As 30 June 2020, loans and advances to customers carried at GEL 614,832 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (31 December 2019: GEL 474,480 thousand).

In 2020, the Group made re-segmentation as disclosed in Note 17. Some of the clients were re-allocated to the different segments.

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 periods. The following movements are described in the tables below:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increase (or decrease) of credit risk or 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 of loans, 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, starting exposures are disclosed as transfer amount;
  - For the loan exposures which changed stage several times during the period, transfers between starting and ending stage is disclosed.
- Newly originated or purchased gives us information regarding gross loans and corresponding expected credit losses issued during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- The line, derecognised during the period refers to starting balance of loans which were repaid or written-off during the period (gross exposure and corresponding expected credit losses, however, exposures which were issued and repaid during the period and repaid by newly issued refinancing loans are excluded);
- Net repayments refers to net changes in gross carrying amounts, consisting of withdrawal of loan and repayment;
- Net write offs refer to write off of loans during the period, while net of written off and recoveries refer to already written off loans for ECL;
- Foreign exchange translations of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary;
- Net re-measurement, 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.

For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases are disclosed as nil.

7 Loans and Advances to Customers (Continued)

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**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)	(363,236)	366,356	(3,120)	**-**	(3,171)	3,253	(82)	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(32,464)	(13,190)	45,654	**-**	(163)	(1,305)	1,468	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	11,288	(11,288)	-	**-**	166	(166)	-	**-**
New originated or purchased	469,844	-	-	**469,844**	9,512	-	-	**9,512**
Derecognised during the period	(99,799)	(55)	(2,862)	**(102,716)**	(3,987)	(11)	(1,071)	**(5,069)**
Net repayments	(200,350)	(3,037)	(5,624)	**(209,011)**	-	-	-	**-**
Resegmentation	27,220	-	-	**27,220**	91	-	-	**91**
Net Write-offs	-	-	-	**-**	-	-	125	**125**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	4,870	2,071	11,011	**17,952**
Modifications	(2,091)	(728)	132	**(2,687)**	-	-	-	**-**
Foreign exchange movements	196,905	21,997	8,538	**227,440**	2,043	197	2,951	**5,191**
At 30 June 2020	**4,442,002**	**464,464**	**164,097**	**5,070,563**	**48,514**	**6,008**	**54,030**	**108,552**

7 Loans and Advances to Customers (Continued)

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**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)	(167,699)	171,769	(4,070)	**-**	(2,653)	2,653	-	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(11,763)	(79)	11,842	**-**	(2,661)	-	2,661	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	19,415	(19,415)	-	**-**	736	(736)	-	**-**
New originated or purchased	648,386	-	-	**648,386**	12,666	-	-	**12,666**
Derecognised during the period	(159,780)	(12,940)	(17,273)	**(189,993)**	(4,335)	469	(6,675)	**(10,541)**
Net repayments	(190,985)	(50,062)	(12,603)	**(253,650)**	-	-	-	**-**
Resegmentation	119,408	711	-	**120,119**	837	75	-	**912**
Net Write-offs	-	-	-	**-**	-	-	572	**572**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	137	(690)	(5,958)	**(6,511)**
Foreign exchange movements	139,759	9,386	7,044	**156,189**	-	-	-	**-**
At 30 June 2019	**3,300,054**	**238,085**	**120,201**	**3,658,340**	**37,667**	**6,765**	**34,171**	**78,603**

Loans to micro, small and medium enterprises	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 im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**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)	(292,430)	297,657	(5,227)	**-**	(3,762)	5,231	(1,469)	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(7,278)	(22,749)	30,027	**-**	(488)	(2,831)	3,319	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	32,938	(32,938)	-	**-**	3,287	(3,287)	-	**-**
New originated or purchased	476,744	-	-	**476,744**	11,170	-	-	**11,170**
Derecognised during the period	(194,995)	(14,872)	(2,663)	**(212,530)**	(3,239)	(1,155)	(1,069)	**(5,463)**
Net repayments	(69,938)	(2,812)	(7,300)	**(80,050)**	-	-	-	**-**
Resegmentation	(28,301)	-	-	**(28,301)**	(91)	-	-	**(91)**
Net Write-offs	-	-	(8,725)	**(8,725)**	-	-	(5,504)	**(5,504)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	14,058	26,475	12,839	**53,372**
Modification	(4,790)	(1,350)	(315)	**(6,455)**	-	-	-	**-**
Foreign exchange movements	90,073	15,440	4,542	**110,055**	876	1,160	1,058	**3,094**
Other movements	112	46	6,931	**7,089**	-	-	-	**-**
At 30 June 2020	**2,652,396**	**443,121**	**110,589**	**3,206,106**	**40,152**	**44,186**	**38,385**	**122,723**

7 Loans and Advances to Customers (Continued)

Loans to micro, small and medium enterprises	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 im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 1 January 2019	**2,210,725**	**193,049**	**92,820**	**2,496,594**	**19,301**	**22,379**	**29,334**	**71,014**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(130,631)	133,823	(3,192)	**-**	(3,613)	5,462	(1,849)	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(16,515)	(29,982)	46,497	**-**	(1,859)	(4,798)	6,657	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,837	(31,837)	-	**-**	2,921	(2,921)	-	**-**
New originated or purchased	564,817	-	-	**564,817**	7,630	-	-	**7,630**
Derecognised during the period	(165,252)	(21,507)	(14,088)	**(200,847)**	(1,244)	(2,305)	(2,312)	**(5,861)**
Net repayments	(132,446)	(19,047)	(15,845)	**(167,338)**	-	-	-	**-**
Resegmentation	(119,163)	(786)	-	**(119,949)**	(836)	(78)	-	**(914)**
Net Write-offs	-	-	(14,041)	**(14,041)**	-	-	(5,699)	**(5,699)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(2,971)	7,605	8,957	**13,591**
Foreign exchange movements	77,199	6,695	4,570	**88,464**	8	1	326	**335**
At 30 June 2019	**2,320,571**	**230,408**	**96,721**	**2,647,700**	**19,337**	**25,345**	**35,414**	**80,096**

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**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)	(189,868)	198,858	(8,990)	**-**	(19,486)	24,134	(4,648)	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(11,156)	(21,424)	32,580	**-**	(1,239)	(5,796)	7,035	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	32,915	(32,651)	(264)	**-**	9,396	(9,181)	(215)	**-**
New originated or purchased	382,704	-	-	**382,704**	37,196	-	-	**37,196**
Derecognised during the period	(163,490)	(22,160)	(3,519)	**(189,169)**	4,072	(7,201)	(1,733)	**(4,862)**
Net repayments	(97,337)	1,813	(1,224)	**(96,748)**	-	-	-	**-**
Resegmentation	1,000	-	-	**1,000**	-	-	-	**-**
Net Write-offs	-	-	(32,569)	**(32,569)**	-	-	(28,706)	**(28,706)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	10,830	55,436	21,913	**88,179**
Modification	(9,293)	(2,879)	(323)	**(12,495)**	-	-	-	**-**
Foreign exchange movements	19,770	3,430	1,132	**24,332**	154	395	573	**1,122**
Other Movements	1,625	(853)	275	**1,047**	-	-	-	**-**
At 30 June 2020	**1,560,132**	**340,951**	**61,025**	**1,962,108**	**77,647**	**110,226**	**39,012**	**226,885**

7 Loans and Advances to Customers (Continued)

Consumer loans	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 1 January 2019	**1,641,993**	**265,673**	**81,850**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(116,970)	122,462	(5,492)	**-**	(9,701)	12,244	(2,543)	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(31,878)	(52,798)	84,676	**-**	(2,978)	(12,634)	15,612	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	62,544	(62,544)	-	**-**	12,388	(12,388)	-	**-**
New originated or purchased	317,555	-	-	**317,555**	15,126	-	-	**15,126**
Derecognised during the period	(96,268)	(24,561)	(71,162)	**(191,991)**	(380)	(6,742)	(4,244)	**(11,366)**
Net repayments	(246,739)	(22,287)	62,094	**(206,932)**	-	-	-	**-**
Resegmentation	4,772	1,244	698	**6,714**	19	104	235	**358**
Net Write-offs	-	-	(64,522)	**(64,522)**	-	-	(57,740)	**(57,740)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(18,991)	15,663	51,849	**48,521**
Foreign exchange movements	21,588	2,296	1,276	**25,160**	9	-	24	**33**
At 30 June 2019	**1,556,597**	**229,485**	**89,418**	**1,875,500**	**38,395**	**55,492**	**57,768**	**151,655**

Mortgage loans	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**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)	(439,319)	450,378	(11,059)	**-**	(796)	4,048	(3,252)	**-**
- to defaulted (from Stage 1 and Stage 2 to Stage 3)	(2,175)	(10,293)	12,468	**-**	(184)	(594)	778	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	26,832	(26,832)	-	**-**	562	(562)	-	**-**
New originated or purchased	250,303	-	-	**250,303**	517	-	-	**517**
Derecognised during the period	(53,086)	(22,854)	123	**(75,817)**	445	(871)	(862)	**(1,288)**
Net repayments	(94,357)	(61)	(1,742)	**(96,160)**	-	-	-	**-**
Resegmentation	81	-	-	**81**	-	-	-	**-**
Net Write-offs	-	-	(379)	**(379)**	-	-	(115)	**(115)**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	7,412	22,448	7,095	**36,955**
Modification	(5,218)	(1,928)	(341)	**(7,487)**	-	-	-	**-**
Foreign exchange movements	120,909	30,746	3,663	**155,318**	395	1,678	1,398	**3,471**
Other movements	295	(20)	1,284	**1,559**	-	-	-	**-**
At 30 June 2020	**2,677,991**	**650,305**	**68,319**	**3,396,615**	**9,822**	**35,833**	**25,590**	**71,245**

7 Loans and Advances to Customers (Continued)

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 1 January 2019	**2,470,603**	**194,410**	**44,170**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(127,153)	133,830	(6,677)	**-**	(498)	2,426	(1,928)	**-**
- to defaulted Stage 2 to Stage 3)	(5,137)	(10,802)	15,939	**-**	(566)	(451)	1,017	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	48,659	(48,659)	-	**-**	1,352	(1,448)	96	**-**
New originated or purchased	356,648	-	-	**356,648**	1,089	-	-	**1,089**
Derecognised during the period	(54,886)	(21,013)	104	**(75,795)**	(38)	(975)	(1,214)	**(2,227)**
Net repayments	(156,483)	(12,021)	(2,958)	**(171,462)**	-	-	-	**-**
Resegmentation	(5,016)	(1,170)	(698)	**(6,884)**	(20)	(102)	(235)	**(357)**
Net Write-offs	-	-	(650)	**(650)**	-	-	1,886	**1,886**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(1,483)	2,507	3,352	**4,376**
Foreign exchange movements	131,723	13,873	3,183	**148,779**	6	1	80	**87**
At 30 June 2019	**2,658,958**	**248,448**	**52,413**	**2,959,819**	**1,538**	**11,124**	**17,080**	**29,742**

7 Loans and Advances to Customers (Continued)

The credit quality of loans to customers carried at amortised cost is as follows at 30 June 2020:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	4,071,703	1,117	-	**4,072,820**
- Low	370,299	418,785	-	**789,084**
- Moderate	-	42,771	-	**42,771**
- High	-	1,791	-	**1,791**
- Default	-	-	164,097	**164,097**
Gross carrying amount	**4,442,002**	**464,464**	**164,097**	**5,070,563**
Credit loss allowance	(48,514)	(6,008)	(54,030)	**(108,552)**
Carrying amount	**4,393,488**	**458,456**	**110,067**	**4,962,011**
Consumer loans risk category				
- Very low	1,086,702	19,188	-	**1,105,890**
- Low	328,320	74,592	-	**402,912**
- Moderate	145,110	245,028	-	**390,138**
- High	-	2,143	-	**2,143**
- Default	-	-	61,025	**61,025**
Gross carrying amount	**1,560,132**	**340,951**	**61,025**	**1,962,108**
Credit loss allowance	(77,647)	(110,226)	(39,012)	**(226,885)**
Carrying amount	**1,482,485**	**230,725**	**22,013**	**1,735,223**
Mortgage loans risk category				
- Very low	2,563,536	317,274	-	**2,880,810**
- Low	102,723	177,252	-	**279,975**
- Moderate	11,732	153,933	-	**165,665**
- High	-	1,846	-	**1,846**
- Default	-	-	68,319	**68,319**
Gross carrying amount	**2,677,991**	**650,305**	**68,319**	**3,396,615**
Credit loss allowance	(9,822)	(35,833)	(25,590)	**(71,245)**
Carrying amount	**2,668,169**	**614,472**	**42,729**	**3,325,370**
Loans to MSME risk category				
- Very low	2,333,531	52,938	-	**2,386,469**
- Low	304,278	264,438	-	**568,716**
- Moderate	14,587	118,368	-	**132,955**
- High	-	7,377	-	**7,377**
- Default	-	-	110,589	**110,589**
Gross carrying amount	**2,652,396**	**443,121**	**110,589**	**3,206,106**
Credit loss allowance	(40,152)	(44,186)	(38,385)	**(122,723)**
Carrying amount	**2,612,244**	**398,935**	**72,204**	**3,083,383**

7 Loans and Advances to Customers (Continued)

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2019:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	4,094,403	7,882	-	**4,102,285**
- Low	339,960	75,872	-	**415,832**
- Moderate	322	19,827	-	**20,149**
- High	-	828	-	**828**
- Default	-	-	121,379	**121,379**
Gross carrying amount	**4,434,685**	**104,409**	**121,379**	**4,660,473**
Credit loss allowance	(39,153)	(1,969)	(39,628)	**(80,750)**
Carrying amount	**4,395,532**	**102,440**	**81,751**	**4,579,723**
Consumer loans risk category				
- Very low	1,107,490	5,436	-	**1,112,926**
- Low	330,361	17,620	-	**347,981**
- Moderate	155,411	176,815	-	**332,226**
- High	-	16,946	-	**16,946**
- Default	-	-	73,927	**73,927**
Gross carrying amount	**1,593,262**	**216,817**	**73,927**	**1,884,006**
Credit loss allowance	(36,724)	(52,439)	(44,793)	**(133,956)**
Carrying amount	**1,556,538**	**164,378**	**29,134**	**1,750,050**
Mortgage loans risk category				
- Very low	2,668,691	17,970	-	**2,686,661**
- Low	182,049	80,289	-	**262,338**
- Moderate	22,986	121,743	-	**144,729**
- High	-	11,167	-	**11,167**
- Default	-	-	64,302	**64,302**
Gross carrying amount	**2,873,726**	**231,169**	**64,302**	**3,169,197**
Credit loss allowance	(1,471)	(9,686)	(20,548)	**(31,705)**
Carrying amount	**2,872,255**	**221,483**	**43,754**	**3,137,492**
Loans to MSME risk category				
- Very low	2,223,262	23,114	-	**2,246,376**
- Low	407,106	87,244	-	**494,350**
- Moderate	19,893	80,947	-	**100,840**
- High	-	13,394	-	**13,394**
- Default	-	-	93,319	**93,319**
Gross carrying amount	**2,650,261**	**204,699**	**93,319**	**2,948,279**
Credit loss allowance	(18,341)	(18,593)	(29,211)	**(66,145)**
Carrying amount	**2,631,920**	**186,106**	**64,108**	**2,882,134**

7 Loans and Advances to Customers (Continued)

In 2020, grace periods were granted to customers due to the COVID-19 pandemic. The total amount of modifications amounted to GEL 34.2 million, out of which GEL 32.3 million related to losses incurred on loans and advances to customers, while GEL 1.8 million related to losses incurred on investments in leases. Modifications reflected the decrease in the present value of cash flows resulting from the 3 to 6 months grace periods granted to the borrowers. Furthermore, the COVID-19 effect led to the creation of an additional ECL charge for 6m 2020. The implication of COVID-19 impact on ECL methodology is described in Note 23.
The table below presents the Economic sector risk concentrations within the customer loan portfolio:

	30 June 2020		**31 December 2019**	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	5,354,863	39%	5,046,804	40%
Energy & Utilities	1,148,256	8%	1,089,643	9%
Hospitality & Leisure	1,141,852	8%	988,467	8%
Real Estate	1,218,235	9%	1,076,102	8%
Food Industry	703,789	5%	785,539	6%
Trade	633,018	5%	616,475	5%
Construction	735,129	5%	576,923	5%
Agriculture	580,203	4%	498,783	4%
Healthcare	345,471	3%	305,152	2%
Services	224,944	2%	212,661	2%
Pawn Shops	199,744	1%	203,633	2%
Automotive	223,555	2%	183,912	1%
Transportation	136,407	1%	134,223	1%
Metals and Mining	101,080	1%	99,321	1%
Financial Services	81,852	1%	96,430	1%
Communication	45,824	0%	43,329	0%
Other	761,170	6%	704,558	5%
Total loans and advances to customers (before impairment)	**13,635,392**	**100%**	**12,661,955**	**100%**

As 30 June 2020, the Group had 260 borrowers (31 December 2019: 239 borrowers) with the aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 4,851,358 thousand (31 December 2019: GEL 4,443,036 thousand) or 35.6% of the gross loan portfolio (31 December 2019: 35.1%).

The amount and type of collateral required depends 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").

7 Loans and Advances to Customers (Continued)

The following table illustrates the effect of collateral as 30 June 2020:

In thousands of GEL	Over-collateralised Assets Carrying value of the assets	Over-collateralised Assets Fair value of collateral	Under-collateralised Assets Carrying value of the assets	Under-collateralised Assets Fair value of collateral
Corporate loans	4,214,549	9,508,022	856,014	262,288
Consumer loans	915,282	2,237,045	1,046,826	27,375
Mortgage loans	3,138,066	6,739,442	258,549	199,342
Loans to micro, small and medium enterprises	2,730,571	6,389,776	475,535	221,092
Total	**10,998,468**	**24,874,285**	**2,636,924**	**710,097**

The following table illustrated the effect of collateral as 31 December 2019:

In thousands of GEL	Over-collateralised Assets Carrying value of the assets	Over-collateralised Assets Fair value of collateral	Under-collateralised Assets Carrying value of the assets	Under-collateralised 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**

8 Premises, Equipment and Intangible Assets

In thousands of GEL	Land, Premises and leasehold improvements**	Office and Other equipment*	Construction in progress**	Total premises and equipment	Intangible Assets	Total
Carrying amount at 1 January 2019	**163,003**	**88,781**	**63,718**	**315,502**	**109,220**	**424,722**
Additions	3,431	14,413	12,067	**29,911**	24,756	**54,667**
Business Combination	-	771	-	**771**	1,019	**1,790**
Disposals	(3,520)	(4,759)	(4,496)	**(12,775)**	(633)	**(13,408)**
Transfer	700	(18)	(557)	**125**	29	**154**
Transfer to financial leases and repossessed assets	-	(1,071)	-	**(1,071)**	-	**(1,071)**
Effect of translation to presentation currency (cost)	(39)	(38)	-	**(77)**	(15)	**(92)**
(Impairment charge)/reversal of impairment to profit or loss	(30)	46	-	**16**	-	**16**
Depreciation/amortisation charge	(2,894)	(11,340)	-	**(14,234)**	(10,851)	**(25,085)**
Elimination of accumulated depreciation/amortisation on disposals	814	2,275	-	**3,089**	359	**3,448**
Effect of translation to presentation currency (accumulated depreciation)	47	11	-	**58**	26	**84**
Carrying amount at 30 June 2019	**161,512**	**89,071**	**70,732**	**321,315**	**123,910**	**445,225**
Cost at 30 June 2019	202,920	225,074	70,732	**498,726**	190,939	**689,665**
Accumulated depreciation/amortisation including accumulated impairment loss	(41,408)	(136,003)	-	**(177,411)**	(67,029)	**(244,440)**
Carrying amount at 1 January 2020	**162,637**	**89,890**	**82,201**	**334,728**	**167,597**	**502,325**
Additions	1,101	14,831	9,702	**25,634**	37,930	**63,564**
Capitalization Intangible Assets	-	-	-	**-**	(513)	**(513)**
Transfers	-	(779)	779	**-**	-	**-**
Disposals	(1,044)	(732)	(175)	**(1,951)**	-	**(1,951)**
Transfer to Inventory	(388)	(39)	-	**(427)**	-	**(427)**
Transfer to financial leases and repossessed assets	-	(198)	-	**(198)**	-	**(198)**
(Impairment charge)/reversal of impairment to profit or loss	-	(94)	-	**(94)**	-	**(94)**
Depreciation/amortisation charge	(2,782)	(10,893)	-	**(13,675)**	(10,473)	**(24,148)**
Elimination of accumulated depreciation/amortisation on disposals	99	1,115	-	**1,214**	44	**1,258**
Effect of translation to presentation currency Cost	(55)	(218)	-	**(273)**	371	**98**
Effect of translation to presentation currency Accumulated depreciation	56	50	-	**106**	(125)	**(19)**
Transfer from Provision for other assets impairment	-	-	-	**-**	(142)	**(142)**
Carrying amount at 30 June 2020	**159,624**	**92,933**	**92,507**	**345,064**	**194,689**	**539,753**
Cost at 30 June 2020	205,693	244,842	92,507	**543,042**	278,256	**821,298**
Accumulated depreciation/amortisation including accumulated impairment loss	(46,069)	(151,909)	-	**(197,978)**	(83,567)	**(281,545)**

*Office and other equipment include furniture and fixtures, computer and office equipment, motor vehicles as well as other equipment.

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

8 Premises, Equipment and Intangible Assets (Continued)

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.

9 Due to Credit Institutions

In thousands of GEL	**30 June 2020**	**31 December 2019**
Due to other banks		
Correspondent accounts and overnight placements	107,292	27,747
Deposits from banks	147,219	139,267
Total due to other banks	**254,511**	**167,014**
Other borrowed funds		
Borrowings from foreign banks and financial institutions	2,483,612	2,005,900
Borrowings from local banks and financial institutions	1,617,344	1,378,995
Borrowings from Ministry of Finance	-	536
Borrowings from other financial institutions	47,939	41,456
Total other borrowed funds	**4,148,895**	**3,426,887**
Total amounts due to credit institutions	**4,403,406**	**3,593,901**

10 Customer Accounts

In thousands of GEL	**30 June 2020**	**31 December 2019**
State and public organisations		
- Current/settlement accounts	662,744	616,397
- Term deposits	220,885	298,177
Other legal entities		
- Current/settlement accounts	2,983,108	3,151,507
- Term deposits	527,577	310,558
Individuals		
- Current/demand accounts	2,779,784	2,712,910
- Term deposits	3,246,232	2,959,775
Total customer accounts	**10,420,330**	**10,049,324**

10 Customer Accounts (Continued)

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	30 June 2020		31 December 2019	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individuals	6,026,016	58%	5,672,685	56%
Construction	508,665	5%	596,703	6%
Trade	688,889	7%	741,385	7%
Government sector	497,190	5%	505,494	5%
Transportation	259,113	2%	308,268	3%
Energy & Utilities	300,891	3%	322,331	3%
Financial Services	548,917	5%	288,860	3%
Services	481,470	5%	446,876	5%
Real Estate	270,070	3%	322,416	3%
Hotels and Leisure	91,572	1%	110,816	1%
Healthcare	128,649	1%	98,294	1%
Agriculture	68,035	1%	50,915	1%
Metals and Mining	21,733	0%	12,264	0%
Other	529,120	4%	572,017	6%
Total customer accounts	**10,420,330**	**100%**	**10,049,324**	**100%**

As 30 June 2020 the Group had 383 customers (31 December 2019: 359 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,546,770 thousand (31 December 2019: GEL 4,327,035 thousand) or 43.6% of total customer accounts (31 December 2019: 43.0%).

As 30 June 2020 included in customer accounts are deposits of GEL 2,925 thousand and GEL 131,869 thousand (31 December 2019: GEL 9,555 thousand and GEL 101,615 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 25. As 30 June 2020, deposits held as collateral for loans to customers amounted to GEL 383,998 thousand (31 December 2019: GEL 469,205 thousand).

Refer to Note 25 for the disclosure of the fair value of customer accounts. Information on related party balances is disclosed in Note 26.

11 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges

Movements in provisions 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 2020	**7,466**	**4,511**	**11,151**	**23,128**
Charges less releases recorded in profit or loss	(1,900)	2,697	1,280	**2,077**
Effect of translation to presentation currency	400	-	(47)	**353**
Carrying amount at 30 June 2020	**5,967**	**7,209**	**12,384**	**25,558**

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2019	**4,393**	**5,424**	**8,950**	**18,767**
Charges less releases recorded in profit or loss	1,133	(741)	2,002	**2,394**
Utilization of provision	-	-	(1,104)	**(1,104)**
Effect of translation to presentation currency	59	-	-	**59**
Carrying amount at 30 June 2019	**5,585**	**4,683**	**9,848**	**20,116**

Credit related commitments and performance guarantees: Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

For letter of credits and guarantees allowance estimation purposes the Bank applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 2 and 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, the Bank distinguishes between the revocable and irrevocable loan commitments of undrawn exposures. For revocable commitments, the Bank does not create an impairment allowance. As for the irrevocable undisbursed exposures, the Bank estimates a utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

Once the respective on balance exposure is estimated, the Bank applies the same impairment framework approach as the one used for the respective type of on balance exposures.

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 1,335 thousand (30 June 2019: GEL 2,339 thousand) that are included in net claims incurred.

12 Debt securities in issue

On 27 May 2020 the TBC Bank Group PLC completed the transaction of a USD 15 million 3-year 8.2% senior unsecured bonds issue (the "Notes"). The private placement is direct, unsecured and unsubordinated obligations of the Company.

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 interbank rate in Tbilisi. Fitch rates the bonds ‘BB-‘.

On 19 March 2020 the TBC Bank Group PLC completed the transaction of a debut USD 10 million 3-year 6.45% senior unsecured bonds issue. The private placement is direct, unsecured and unsubordinated obligations of the Company.

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.

13 Subordinated Debt

As 30 June 2020, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,401	6,401
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	7,001	7,001
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,254	46,604
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,638	23,334
European Fund for Southeast Europe	15-Mar-16	16-Mar-26	USD	7,636	23,330
Asian Development Bank (ADB)	18-Oct-16	31-Dec-26	USD	50,467	154,186
Private lenders	8-Jun-17	19-Dec-24	USD	25,212	77,028
Subordinated Bond	31-Aug-18	25-Jan-23	USD	10,045	30,859
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,089	76,653
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,005	3,069
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,114	9,514
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	5,929	18,114
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	14,933	45,622
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	14,927	45,605
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,074	61,329
Total subordinated debt					**628,649**

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
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,739	6,739
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,305	43,890
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,663	21,975
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,662	21,971
Asian Development Bank (ADB)	18-Oct-16	31-Oct-26	USD	50,585	145,064
Private lenders	8-Jun-17	19-Dec-24	USD	25,218	72,318
Subordinated Bond	17-Aug-18	30-Nov-22	USD	10,101	28,976
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,089	71,948
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,006	2,884
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,117	8,940
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	5,935	17,020
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	14,924	42,797
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	14,920	42,786
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,074	57,565
Total subordinated debt					**591,035**

The debt ranks after all other creditors in case of liquidation. Refer to Note 25 for the disclosure of the fair value of subordinated debt.

In the event of any liquidation and/or significant financial distress with respect to the Borrower, the Lender agrees that the claims of the Lender in respect of the principal of, and interest on, the Loan and all other amounts payable under this Agreement shall be subordinated and subject in right of payment to the prior payment of claims of depositors and unsecured creditors of the Borrower, except for claims which are themselves so subordinated.

13 Subordinated Debt (Continued)

Unless otherwise agreed with the Regulatory Authority, any voluntary or mandatory prepayment of the Loan or cancellation of this Agreement (except in the case of Clause 9.2 (Voluntary Prepayment)) can be made no earlier than five calendar years after the Disbursement Date of the Loan and shall require the prior written consent of the Regulatory Authority.
The purpose of the Facility is to provide the Borrower with funding to be used by the Borrower as an instrument that qualifies as Tier 2 Capital to increase its lending capacity and to provide a capital cushion for the Borrower in accordance with the provisions of this Agreement.

14 Share Capital

In thousands of GEL except for number of shares	**Number of ordinary shares**	**Share capital**
As of 1 January 2019	**54,244,329**	**1,650**
Shares issued	615,175	22
Scrip dividend issued	296,392	10
As of 31 December 2019	**55,155,896**	**1,682**
As of 30 June 2020	**55,155,896**	**1,682**

As 30 June 2020 the total authorised number of ordinary shares was 55,155,896 shares (31 December 2019: 55,155,896 shares). Each share has a nominal value of one British Penny. All issued ordinary shares are fully paid and entitled to dividends.

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.

On 17 March 2020, the Board resolved not to recommend distributing a dividend, based on 2019 audited financial statements and that the Company would continue to monitor the situation resulted from COVID-19 pandemic.

15 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 payed 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:

Anew 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.

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. Once shares are delivered, for CEO and CFO they remain subject to continued employment, however for other members of the Bank's management Board condition of continuous employment had mean removed starting from the year of 2020 ; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition, the shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

15 Share Based Payments (continued)

Where applicable, deferred share salary is paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to each. Initial salaries are set and approved by the Supervisory Board and Board of Directors. The Remuneration Committee assists both Boards in compensation related matters and makes respective recommendations. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

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. Once shares are delivered, they remain subject to continued employment fo r CEO and CFO , however condition of continuous emoloyment is removed for other members of the top management starting from the year 2020and malus and claw back provisions 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition per above the shares are registered in the trustees name as the 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. The Bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum award amounts.

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. A new system will be approved in 2021 to cover the period of 2021-2023. Shares if awarded will be delivered during the first quarter of the fourth year (i.e. the year after the performance period ends) and the exact date will be determined by the Board. Once shares are delivered, they remain subject to 3 year holding period and continued employment requirements. An award holder shall have no voting rights, or rights to receive dividends, in respect of a conditional share award before such award becomes a vested award, i.e. after the end of the 3-year award period. The awards may be granted in the form of conditional share awards, options or restricted share awards. Performance Conditions are proposed to the Board for approval by the Remuneration Committee for a period of 3 years. 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 and makes the recommendation for approval to the Board. Awards are subject to the Group's malus and clawback policies until three years after the shares are delivered. If at any time after making the award the award holder deliberately mislead the Company or the Bank in relation to the financial performance, there is a material misstatement (or material error) in the financial statements of the Company or the Bank, the award holder's unit has suffered a material downturn in its financial performance caused by the award holder, there is misconduct on the

15 Share Based Payments (continued)

Long Term Incentive Plan (LTIP) (continued)

part of the award holder that caused material harm to the Company's or the Bank's reputation or there is misconduct on the part of the award holder that caused failure of the risk management resulting in a material loss to the Company or the Bank, the Remuneration Committee 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) and to clawback any amount that has already been paid. For newly issued shares, the LTIP is limited to using 10% of Company's total issued shares in 10 years for employee plans and 5% of Company's total issued shares 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.

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 The Bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

The performance conditions in respect of performance period 2019-2021 are as follows: 1) average Return on Equity for three years 2) total shareholder return for a period of three years 3) loan market share at the end of 2022. More details about specific weights and targets for CEO and CFO are given on page 162 of our 2019 Annual Report.

During COVID-19 outbreak, the Group continued to focus on optimising cost structure, re-arranging many processes and prioritising expenses. As part of this, and in recognition of the extraordinary pandemic circumstances, the Executive Directors of TBC Bank Group PLC and Management of JSC TBC Bank have volunteered to waive all their rights to deferred shares bonuses and long-term incentive plan grants for 2020.

15 Share Based Payments (continued)

Tabular information on the schemes is given below:

In GEL except for number of shares	30 June 2020	31 December 2019
Number of unvested shares at the beginning of the period	**3,141,541**	**2,121,129**
Total number of shares granted	**528,325*** **	**1,613,101**
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*
Change in estimates of number of shares expected to be granted**	**51,129**	**(57,058)**
Management waiver of rights for 2020 bonus	(428,451)	-
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	-
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)
Number of shares vested	**(536,926)**	**(519,130)**
2015 year award – 80% vesting	-	*(405,573)*
2016 year award – 80% vesting	*(413,544)*	-
2016 year award – 10% vesting	-	*(51,693)*
2017 year award – 10% vesting	*(61,864)*	*(61,864)*
2018 year award – 10% vesting	*(61,518)*	-
Number of unvested shares at the end of the period	**3,112,222**	**3,141,541**
Value at grant date per share according to June 2015 scheme (GEL)	24.64	24.64
Value at grant date per share (GEL) middle management and other eligible employees plan	50.16	50.16
Value at grant date per share (GEL) Deferred share salary plan	50.16	50.16
Value at grant date per share (GEL) Deferred bonus plan	50.16	50.16
Value at grant date per share (GEL) LTIP*	50.16	50.16

	30 June 2020	30 June 2019
Expense on equity-settled part (GEL thousand)	6,063	13,245
Expense on cash-settled part (GEL thousand)	(1,076)	491
Expense recognised as staff cost during the period (GEL thousand)	**4,987**	**13,736**

*Grant date for LTIP plan has been determined for the first award tranche only, which is planned in 2021. 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.

Liability in respect of the cash-settled part of the award amounted to GEL 867 thousand as 30 June 2020 (31 December 2019: GEL 3,160 thousand). Tax part of the new bonus system for the top management is accounted under equity settled basis.

Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

15 Share Based Payments (continued)

On 30 June 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 (30 June 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. As at 30 June 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%).

16 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 period.

In thousands of GEL except for number of shares	**30 June 2020**	**30 June 2019**
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme	67,625	253,235
Weighted average number of ordinary shares in issue	54,421,866	54,587,603
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**1.24**	**4.64**

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 period:

In thousands of GEL except for number of shares	**30 June 2020**	**30 June 2019**
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme –	67,625	253,235
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	54,950,082	54,840,290
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**1.23**	**4.62**

17 Segment Analysis

The Management Board (the "Board") is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2020 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 108 million of loans and customer amounts were transferred from MSME to Corporate segment, while GEL 2 million amounts were transferred from Corporate to MSME segment. In the tables below is disclosed the information as of 30 June 2020 both with and without re-segmentation effect.

The operating segments according to the definition 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 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 Management Board 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 as 30 June 2020 and 31 December 2019.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 23.

A summary of the Group's reportable segments as 30 June 2020 with updated segmentation and also without re-segmentation effect (for comparative reasons) and 30 June 2019 is provided below:

17 Segment Analysis (Continued)

Per new segmentation:

In thousands of GEL	Corporate	Retail	MSME	Corporate centre and other operations	Total
30 June 2020					
– Interest income	225,082	285,336	162,144	115,331	**787,893**
– interest expense	(87,181)	(86,768)	(5,426)	(228,716)	**(408,091)**
– Net gains on currency swaps	-	-	-	12,522	**12,522**
– Inter-segment interest income/(expense)	841	(32,744)	(64,097)	96,000	**-**
– **Net interest income**	138,742	165,824	92,621	(4,863)	**392,324**
– Fee and commission income	24,949	96,189	11,443	6,171	**138,752**
– Fee and commission expense	(3,990)	(45,757)	(5,171)	(765)	**(55,683)**
– **Net Fee and commission income**	**20,959**	**50,432**	**6,272**	**5,406**	**83,069**
– Net insurance premiums earned	-	-	-	26,618	**26,618**
– Net insurance claims incurred	-	-	-	(16,337)	**(16,337)**
– **Insurance Profit**	**-**	**-**	**-**	**10,281**	**10,281**
– Net gains from trading in foreign currencies	25,763	17,897	13,748	(8,002)	**49,406**
– Net losses from foreign exchange translation	-	-	-	(1,627)	**(1,627)**
– Net losses from derivative financial instruments	-	-	-	(20)	**(20)**
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	(1,202)	**(1,202)**
– Other operating income	858	2,390	129	4,600	**7,977**
– Share of profit of associates	-	-	-	90	**90**
– **Other operating non-interest income**	**26,621**	**20,287**	**13,877**	**(6,161)**	**54,624**
– Credit loss allowance for loans to customers	(26,627)	(160,861)	(61,728)	-	**(249,216)**
– Credit loss allowance for performance guarantees and credit related commitments	650	(378)	(1,069)	-	**(797)**
– Credit loss allowance for net investments in lease	-	-	-	(4,278)	**(4,278)**
– Credit loss allowance for other financial assets	(1,964)	(69)	-	(2,189)	**(4,222)**
– Credit loss allowance for financial assets measured at fair value through OCI	8	-	-	(546)	**(538)**
– **Profit before administrative and other expenses and income taxes**	**158,389**	**75,235**	**49,973**	**(2,350)**	**281,247**
– **Losses from modifications of financial instruments**	**(2,675)**	**(22,547)**	**(7,068)**	**(1,880)**	**(34,170)**
– Staff costs	(14,894)	(54,421)	(23,331)	(21,360)	**(114,006)**
– Depreciation and amortisation	(2,028)	(21,738)	(5,422)	(3,027)	**(32,215)**
– Provision for liabilities and charges	-	-	-	77	**77**
– Administrative and other operating expenses	(5,803)	(28,272)	(9,284)	(12,657)	**(56,016)**
– **Operating expenses**	**(22,725)**	**(104,431)**	**(38,037)**	**(36,967)**	**(202,160)**
– **Profit before tax**	**132,989**	**(51,743)**	**4,868**	**(41,197)**	**44,917**
– Income tax expense	(8,990)	25,745	5,991	1,537	**24,283**
– **Profit for the period**	**123,999**	**(25,998)**	**10,859**	**(39,660)**	**69,200**
30 June 2020					
Total gross loans and advances to customers reported	5,070,563	5,358,723	3,206,106	-	**13,635,392**
Total customer accounts reported	3,222,718	6,019,291	1,178,321	-	**10,420,330**
Total credit related commitments and performance guarantees	2,861,193	190,710	261,182	-	**3,313,085**

17 Segment Analysis (Continued)

Per old segmentation:

In thousands of GEL	Corporate	Retail	MSME	Corporate centre and other operations	Total
30 June 2020					
– Interest income	221,339	285,336	165,887	115,331	**787,893**
– interest expense	(87,077)	(86,768)	(5,530)	(228,716)	**(408,091)**
– Net gains on currency swaps	-	-	-	12,522	**12,522**
– Inter-segment interest income/(expense)	841	(32,744)	(64,097)	96,000	**-**
– **Net interest income**	**135,103**	**165,824**	**96,260**	**(4,863)**	**392,324**
– Fee and commission income	24,949	96,189	11,443	6,171	**138,752**
– Fee and commission expense	(3,990)	(45,757)	(5,171)	(765)	**(55,683)**
– **Net Fee and commission income**	**20,959**	**50,432**	**6,272**	**5,406**	**83,069**
– Net insurance premiums earned	-	-	-	26,618	**26,618**
– Net insurance claims incurred	-	-	-	(16,337)	**(16,337)**
– **Insurance Profit**	**-**	**-**	**-**	**10,281**	**10,281**
– Net gains from trading in foreign currencies	25,763	17,897	13,748	(8,002)	**49,406**
– Net losses from foreign exchange translation	-	-	-	(1,627)	**(1,627)**
– Net losses from derivative financial instruments	-	-	-	(20)	**(20)**
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	(1,202)	**(1,202)**
– Other operating income	858	2,390	129	4,600	**7,977**
– Share of profit of associates	-	-	-	90	**90**
– **Other operating non-interest income**	**26,621**	**20,287**	**13,877**	**(6,161)**	**54,624**
– Credit loss allowance for loans to customers	(26,627)	(160,861)	(61,728)	-	**(249,216)**
– Credit loss allowance for performance guarantees and credit related commitments	650	(378)	(1,069)	-	**(797)**
– Credit loss allowance for net investments in lease	-	-	-	(4,278)	**(4,278)**
– Credit loss allowance for other financial assets	(1,964)	(69)	-	(2,189)	**(4,222)**
– Credit loss allowance for financial assets measured at fair value through OCI	8	-	-	(546)	**(538)**
– **Profit before administrative and other expenses and income taxes**	**154,750**	**75,235**	**53,612**	**(2,350)**	**281,247**
– **Losses from modifications of financial instruments**	**(2,675)**	**(22,547)**	**(7,068)**	**(1,880)**	**(34,170)**
– Staff costs	(14,894)	(54,421)	(23,331)	(21,360)	**(114,006)**
– Depreciation and amortisation	(2,028)	(21,738)	(5,422)	(3,027)	**(32,215)**
– Provision for liabilities and charges	-	-	-	77	**77**
– Administrative and other operating expenses	(5,803)	(28,272)	(9,284)	(12,657)	**(56,016)**
– **Operating expenses**	**(22,725)**	**(104,431)**	**(38,037)**	**(36,967)**	**(202,160)**
– **Profit before tax**	**129,350**	**(51,743)**	**8,507**	**(41,197)**	**44,917**
– Income tax expense	(8,483)	25,745	5,484	1,537	**24,283**
– **Profit for the period**	**120,867**	**(25,998)**	**13,991**	**(39,660)**	**69,200**
30 June 2020					
Total gross loans and advances to customers reported	4,964,861	5,358,723	3,311,808	-	**13,635,392**
Total customer accounts reported	3,212,814	6,019,291	1,188,225	-	**10,420,330**
Total credit related commitments and performance guarantees	2,861,193	190,711	261,181	-	**3,313,085**

17 Segment Analysis (Continued)

In thousands of GEL	Corporate	Retail	MSME	Corporate centre and other operations	Total
30 June 2019					
– Interest income	156,857	288,909	141,798	90,652	**678,216**
– interest expense	(79,418)	(72,843)	(4,682)	(133,834)	**(290,777)**
– Net gains on currency swaps	-	-	-	11,146	**11,146**
– Inter-segment interest income/(expense)	24,584	(33,609)	(47,567)	56,592	**-**
– **Net interest income**	**102,023**	**182,457**	**89,549**	**24,556**	**398,585**
– Fee and commission income	24,002	92,008	11,365	2,510	**129,885**
– Fee and commission expense	(3,251)	(37,256)	(3,789)	(248)	**(44,544)**
– **Net Fee and commission income**	**20,751**	**54,752**	**7,576**	**2,262**	**85,341**
– Net insurance premiums earned	-	-	-	15,992	**15,992**
– Net insurance claims incurred	-	-	-	(7,925)	**(7,925)**
– **Insurance Profit**	**-**	**-**	**-**	**8,067**	**8,067**
– Net gains from trading in foreign currencies	22,288	13,370	10,120	(10,805)	**34,973**
– Net losses from foreign exchange translation	-	-	-	9,214	**9,214**
– Net losses from derivative financial instruments	-	(218)	-	(11)	**(229)**
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	147	**147**
– Other operating income	1,040	4,502	701	1,566	**7,809**
– Share of profit of associates	-	-	-	341	**341**
– **Other operating non-interest income**	**23,328**	**17,654**	**10,821**	**8,519**	**60,322**
– Credit loss allowance for loans to customers	4,259	(55,517)	(15,225)	-	**(66,483)**
– Credit loss allowance for performance guarantees and credit related commitments	(807)	421	(6)	-	**(392)**
– Credit loss allowance for net investments in lease	-	-	-	178	**178**
– Credit loss allowance for other financial assets	3,010	92	-	(2,522)	**580**
– Credit loss allowance for financial assets measured at fair value through OCI	(320)	-	-	(30)	**(350)**
– **Profit before administrative and other expenses and income taxes**	**152,244**	**199,859**	**92,715**	**32,963**	**477,781**
– Staff costs	(17,674)	(66,073)	(23,199)	(9,693)	**(116,639)**
– Depreciation and amortisation	(1,494)	(24,854)	(3,924)	(1,852)	**(32,124)**
– Provision for liabilities and charges	-	-	-	1,441	**1,441**
– Administrative and other operating expenses	(7,565)	(39,845)	(10,923)	(6,242)	**(64,575)**
– **Operating expenses**	**(26,733)**	**(130,772)**	**(38,046)**	**(16,346)**	**(211,897)**
– **Profit before tax**	**125,511**	**69,087**	**54,669**	**16,617**	**265,884**
– Income tax expense	(14,546)	(6,985)	(5,429)	14,616	(12,344)
– **Profit for the period**	**110,965**	**62,102**	**49,240**	**31,233**	**253,540**
30 June 2019					
Total gross loans and advances to customers reported	3,658,340	4,835,320	2,647,700	-	**11,141,360**
Total customer accounts reported	3,510,179	5,360,114	1,006,520	-	**9,876,813**
Total credit related commitments and performance guarantees	1,983,645	222,636	252,082	-	**2,458,363**

17 Segment Analysis (Continued)

Reportable segments' assets were reconciled to total assets as follows:

In thousands of GEL	30 June 2020	31 December 2019*
Total segment assets (gross loans and advances to customers)	13,635,392	12,661,955
Credit loss allowance	(529,404)	(312,556)
Cash and cash equivalents	981,803	1,003,583
Mandatory cash balances with National Bank of Georgia	1,794,010	1,591,829
Due from other banks	30,879	33,605
Investment securities measured at fair value through other comprehensive income	1,082,520	985,293
Bonds carried at amortised cost	1,335,415	1,022,684
Current income tax prepayment	36,703	25,695
Deferred income tax asset	7,470	2,173
Other financial assets	174,378	133,736
Net investments in leases	270,172	256,660
Other assets	258,349	255,712
Premises and equipment	345,064	334,728
Intangible assets	194,689	167,597
Investment properties	70,716	72,667
Goodwill	60,296	61,558
Right of use assets	62,865	59,693
Investments in Associates	2,112	2,654
Total assets per statement of financial position	**19,813,429**	**18,359,266**

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

Reportable segments' liabilities are reconciled to total liabilities as follows:

In thousands of GEL	30 June 2020	31 December 2019*
Total segment liabilities (customer accounts)	10,420,330	10,049,324
Due to credit institutions	4,403,406	3,593,901
Debt securities in issue	1,396,141	1,213,598
Current income tax liability	692	1,634
Deferred income tax liability	5	18,888
Provisions for liabilities and charges	25,558	23,128
Other financial liabilities	138,749	113,609
Lease Liabilities	65,937	59,898
Other liabilities	80,557	95,161
Subordinated debt	628,649	591,035
Total liabilities per statement of financial position	**17,160,024**	**15,760,176**

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

18 Interest Income and Expense

In thousands of GEL	30 June 2020	30 June 2019
Interest income calculated using effective interest method		
Loans and advances to customers	663,530	582,899
Bonds carried at amortised cost	42,363	23,410
Investment securities measured at fair value through OCI	46,056	36,950
Due from other banks	9,573	11,630
Other interest income		
Net investments in lease	25,517	23,327
Other	854	-
Total interest income	**787,893**	**678,216**
Interest expense		
Customer accounts	177,846	155,634
Due to credit institutions	149,560	100,032
Subordinated debt	27,650	31,748
Debt Securities in issue	51,498	2,054
Lease liabilities	1,537	1,309
Total interest expense	**408,091**	**290,777**
Net gains on currency swaps	**12,522**	**11,147**
Net interest income	**392,324**	**398,586**

During the six months ended 30 June 2020 the interest accrued on impaired loans amounted to GEL 16,175 thousand (30 June 2019: GEL 17,964 thousand).

19 Fee and Commission Income and Expense

In thousands of GEL	30 June 2020	30 June 2019
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	65,033	60,084
- Settlement transactions	43,868	36,609
- Guarantees issued	17,047	12,546
- Cash transactions	3,886	6,706
- Issuance of letters of credit	2,686	2,319
- Foreign exchange operations	580	1,388
- Other	5,652	10,233
Total fee and commission income	**138,752**	**129,885**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	41,531	34,175
- Settlement transactions	5,856	6,623
- Cash transactions	3,989	1,603
- Guarantees received	1,149	864
- Letters of credit	665	740
- Foreign exchange operations	110	31
- Other	2,383	508
Total fee and commission expense	**55,683**	**44,544**
Net fee and commission income	**83,069**	**85,341**

20 Other Operating Income

In thousands of GEL	30 June 2020	30 June 2019
Revenues from operational leasing	1,283	1,660
Gain on disposal of premises and equipment	48	1,370
Gain from sale of investment properties	368	630
Gain from sale of repossessed collateral	322	582
Revenues from e-commerce	2,759	-
Revenues from sale of cash-in terminals	317	443
Revenues from non-credit related fines	122	165
Other	2,758	2,960
Total other operating income	**7,977**	**7,810**

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of repossessed collateral disposed of in the period ended 30 June 2020 was GEL 4,840 thousand (30 June 2019: GEL 5,980 thousand).

21 Administrative and Other Operating Expenses

In thousands of GEL	30 June 2020	30 June 2019
Professional services	8,122	12,046
Advertising and marketing services	10,348	9,461
Intangible asset enhancement	6,756	5,976
Expenses related to lease contracts	6,641	5,826
Premises and equipment maintenance	3,262	4,765
Taxes other than on income	4,839	3,713
Utility services	3,426	3,570
Communications and supply	2,952	2,782
Stationery and other office expenses	3,086	2,251
Charity	799	1,279
Business trip expenses	558	1,065
Security services	943	1,025
Transportation and vehicle maintenance	794	903
Personnel training and recruitment	511	596
Insurance	954	508
Loss on disposal of premises and equipment	10	251
Loss on disposal of inventories	120	52
Loss on disposal of investment properties	248	38
Impairment of Premises & Equipment	94	-
Write-down of current assets to fair value less costs to sell	(345)	(251)
Other	1,898	8,719
Total administrative and other operating expenses	**56,016**	**64,575**

22 Income Taxes

As at 30 June 2020, the statutory income tax rate applicable to the majority of the Group's income is 15% (six months ended 30 June 2019: 15%). On 12 June 2018, the new amendment to the current corporate taxation model came into force that postpones tax relief for re-invested profit from 1 January 2019 to 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops. As a result, deferred tax assets/liabilities are measured to the amounts that are realizable until 31 December 2022.

23 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.

Credit quality assignment methodology is unchanged and it does not take into account COVID-19 related overlays applied by the management for ECL calculation.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

The Bank uses is a three-stage model for ECL measurement and classifies its borrowers across three stages: The Bank classifies its exposures as Stage 1 if no significant deterioration in credit quality occurred since initial recognition and the instrument was not defaulted when initially recognized. The exposure is classified to Stage 2 if the significant deterioration in credit quality was identified since initial recognition but the financial instrument is not considered defaulted. The exposures for which the defaulted indicators have been identified are classified as Stage 3 instruments. The Expected Credit Loss (ECL) amount differs depending on exposure allocation to one of the Stages. In the case of Stage 1 instruments, the ECL represents that portion of the lifetime ECL that can be attributed to default events potentially occurring within the next 12 months from the reporting date. In case of Stage 2 instruments, the ECL represents the lifetime ECL, i.e. credit losses that can be attributed to possible default events during the whole lifetime of a financial instrument. Generally, lifetime is set equal to the remaining contractual maturity of the financial instrument. Factors such as existence of contractual repayment schedules, options for extension of repayment maturity and monitoring processes held by the Bank affect the lifetime determination. In case of Stage 3 instruments, default event has already incurred and the lifetime ECL is estimated based on the expected recoveries.

23 Financial and Other Risk Management (Continued)

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.

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.

An increase in PD parameter as a result of an application of COVID-19 related macroeconomic overlay, triggered a quantitative SICR criteria for retail and micro exposures. In order to classify triggered exposures as a stage 2, in addition to the change in PD SICR criteria, the Bank also considers extension of payment holiday to the borrower. The Bank has not deemed the borrower's decision to take payment holiday alone as a sufficient indicator of an SICR occurring.

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".

23 Financial and Other Risk Management (Continued)

Significant increase in credit risk ("SICR") (Continued)

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.

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 for the non-significant and non-impaired significant borrowers the Bank estimates expected credit losses collectively. For the collective assessment and risk parameters estimation purposes the exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: Stage (Stage 1, Stage 2 or Stage 3), type of counterparty (individual vs business), type of product, rating (external or internal), overdue status, restructuring status, months in default category or any other characteristics that may differentiate certain sub-segments for risk parameter's estimation purposes. Number of pools differs for different products/ segments considering specifics of portfolio and availability of data within each pool. Collective ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained below, and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters:

Exposure at default (EAD)

The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. In light of the COVID-19 pandemic, the Bank expects that prepayment rates will decrease substantially compared to the pre-stress levels. In order to reflect the future expectations in EAD modelling, we have adjusted the prepayment rates downward for future one-year period. For revolving products, the Bank estimates the EAD based on the expected limit utilisation percentage conditional on the default event.

23 Financial and Other Risk Management (Continued)

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 Bank applied an additional downward adjustment to the collateral values for LGD calculation purposes to capture expected real estate price drop in downside macroeconomic scenario.

Forward-looking information

The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward-looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy.

To derive the baseline macro-economic scenario, the Group takes into account forecasts from various external sources – the National Bank of Georgia, Ministry of Finance, International Monetary Fund ("IMF") as well as other International Financial Institutions ("IFI"'s) – in order to ensure the to the consensus market expectations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

In light of the COVID-19 pandemic, the Bank modified its approach to incorporating forward-looking information in the estimation of ECLs. The Bank generally uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. Such models are not accustomed to the magnitude of stress macroeconomic conditions that we expect to be a result of COVID-19 pandemic and may downplay the severity of impact. Current forward-looking adjustment is based on the Bank's expectations on future defaults related to the COVID-19 implications and

23 Financial and Other Risk Management (Continued)

Forward-looking information (Continued)

is a result of the internal stress test exercise. Stress test is conducted based on the projections of macroeconomic factors separately in each macroeconomic scenario. Additionally, 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.

23 Financial and Other Risk Management (Continued)

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 offshore companies, which are closely related to Georgian counterparties, are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The table below presents the geographical concentration of the Group's assets and liabilities as at 30 June 2020:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	743,427	229,978	8,398	**981,803**
Due from other banks	18,864	12,015	-	**30,879**
Mandatory cash balances with National Bank of Georgia	1,794,010	-	-	**1,794,010**
Loans and advances to customers	12,613,131	343,859	148,998	**13,105,988**
Investment securities measured at fair value through other comprehensive income	1,082,520	-	-	**1,082,520**
Bonds carried at amortised cost	1,335,415	-	-	**1,335,415**
Investments in leases	269,351	-	821	**270,172**
Other financial assets	169,006	4,865	507	**174,378**
Total financial assets	**18,025,724**	**590,717**	**158,724**	**18,775,165**
Non-financial assets	**1,036,486**	**36**	**1,742**	**1,038,264**
Total assets	**19,062,210**	**590,753**	**160,466**	**19,813,429**
Liabilities				
Due to credit institutions	2,105,261	2211877	86,268	**4,403,406**
Customer accounts	8,641,262	951,545	827,523	**10,420,330**
Debt securities in issue	1,396,141	-	-	**1,396,141**
Other financial liabilities	138,134	291	324	**138,749**
Lease liabilities	63,739	-	2,198	**65,937**
Subordinated debt	107,581	365,753	155,315	**628,649**
Total financial liabilities	**12,452,118**	**3,529,466**	**1,071,628**	**17,053,212**
Non-financial liabilities	**102,227**	**30**	**4,555**	**106,812**
Total liabilities	**12,554,345**	**3,529,496**	**1,076,183**	**17,160,024**
Net balance sheet position	**6,507,865**	**(2,938,743)**	**(915,717)**	**2,653,405**
Performance guarantees	**677,404**	**239,707**	**700,525**	**1,617,636**
Credit related commitments	**1,682,712**	**8,291**	**4,446**	**1,695,449**

23 Financial and Other Risk Management (Continued)

The table below shows the geographical concentration of the Group's assets and liabilities as at 31 December 2019. 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 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	408,217	166,155	**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**	**708,794**	**181,975**	**17,376,789**
Non-financial assets	**978,724**	**28**	**3,725**	**982,477**
Total assets	**17,464,744**	**708,822**	**185,700**	**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	113,272	329	8	**113,609**
Lease liabilities	59,898	-	-	**59,898**
Subordinated debt	100,993	343,861	146,181	**591,035**
Total financial liabilities	**11,707,929**	**2,822,098**	**1,091,338**	**15,621,365**
Non-financial liabilities	**132,688**	**829**	**5,294**	**138,811**
Total liabilities	**11,840,617**	**2,822,927**	**1,096,632**	**15,760,176**
Net balance sheet position	**5,624,127**	**(2,114,105)**	**(910,932)**	**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**

23 Financial and Other Risk Management (Continued)

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 of 30 June 2020, the Bank maintained an aggregate open currency position of 2.1% of regulatory capital (2019: 0.5%). 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: postponing 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 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 FC currency. 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 30 June 2020				**As 31 December 2019**			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	7,762,201	6,068,079	34,651	**1,728,773**	7,502,497	5,706,300	(100,140)	**1,696,057**
US Dollars	7,105,190	9,756,431	2,602,284	**(48,957)**	6,846,799	8,774,033	1,955,050	**27,816**
Euros	3,820,961	1,111,146	(2,707,596)	**2,219**	2,970,008	1,035,944	(1,925,463)	**8,601**
Other	86,813	114,635	65,583	**37,761**	57,485	105,088	56,136	**8,533**
Total	**18,775,165**	**17,050,291**	**(5,078)**	**1,719,796**	**17,376,789**	**15,621,365**	**(14,417)**	**1,741,007**

US Dollar strengthening by 10% (weakening 10%) would decrease Group's profit or loss and equity in 2020 by GEL 4,896 thousand (increase by GEL 4,896 thousand). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 222 thousand (decrease by GEL 222 thousand).

US Dollar strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 2,782 thousand (decrease by GEL 2,782 thousand). Euro strengthening by 10% (weakening 10%) would increase Group's profit or loss and equity in 2019 by GEL 860 thousand (decrease by GEL 860 thousand).

23 Financial and Other Risk Management (Continued)

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. The Bank used to enter also into interest rate swap agreements or apply for other interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The table below summarises the Group's exposure to interest rate risks. 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 are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables. The tables consider both reserves placed with NBG and Interest bearing Nostro accounts. Income/expense on NBG reserves and Nostros are calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates are considered in case of USD and EUR respectively. Therefore, they have 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**
30 June 2020					
Total financial assets	6,463,980	5,432,862	1,269,698	6,273,348	**19,439,888**
Total financial liabilities	5,737,442	3,201,728	1,492,705	7,288,642	**17,720,517**
Net interest sensitivity gap as at 30 June 2020	**726,538**	**2,231,134**	**(223,007)**	**(1,015,294)**	**1,719,371**
31 December 2019					
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 at 31 December 2019	**634,658**	**1,946,655**	**(3,472)**	**(830,528)**	**1,747,313**

At 30 June 2020, if interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 22,586 thousands higher (30 June 2019 GEL 12,574 thousands higher), mainly as a result of higher interest income on variable interest assets. Other comprehensive income would have been GEL 11,849 thousand higher (30 June 2019: GEL 8,433 thousand), 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 30 June 2020 had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 22,164 thousands lower (30 June 2019 GEL 12,005 thousands lower), mainly as a result of lower interest income on variable interest assets. Other comprehensive income would have been GEL12,300 thousand lower (30 June 2019: GEL 8,044 thousand), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

TBC employs an advanced framework for the management of interest rate risk. The interest rate risk assessment on a standalone basis is performed monthly by the Financial Risk Management Department. From September2020, NBG plans to introduce NBG IRR model.

23 Financial and Other Risk Management (Continued)

Interest rate risk (continued)

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. To allocate capital charges for IRR, TBC Bank reserves the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period.

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 ongoing 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

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, what if and scenarios 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 were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank 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 bands and ensure that NBG LCR limits are met on a daily basis.

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.

23 Financial and Other Risk Management (Continued)

Funding liquidity risk (Continued)

The loan to deposit and IFI funding ratio (defined as total value of net loans divided by total value of deposits and funds received from International financial institutions) stood at 105.3% and 104.8% as at 30 June 2020 and 31 December 2019 respectively.

Maturity analysis

The table below summarizes the maturity analysis of the Group's financial liabilities; based on remaining undiscounted contractual obligations as at 30 June 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.

The maturity analysis of financial liabilities as at 30 June 2020 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**
Liabilities					
Due to Credit institutions	1,948,849	910,895	3,763,528	279,948	**6,903,220**
Customer accounts – individuals	3,631,395	1,794,740	709,637	28,940	**6,164,712**
Customer accounts – other	3,799,558	279,912	469,020	244,147	**4,792,637**
Other financial liabilities	121,993	7,569	1,075	-	**130,637**
Lease Liabilities	3,575	10,463	45,622	6,465	**66,125**
Subordinated debt	2,805	71,406	1,255,411	1,963,480	**3,293,102**
Debt securities in issue	1,323	3,492	1,416,862	-	**1,421,677**
Gross settled forwards	2,677,801	506,177	164,261	-	**3,348,239**
Performance guarantees	134,772	524,180	903,141	55,543	**1,617,636**
Financial guarantees and letters of credit	60,099	241,084	77,115	610	**378,908**
Other credit related commitments	1,316,541	-	-	-	**1,316,541**
Total potential future payments for financial obligations	**13,698,711**	**4,349,918**	**8,805,672**	**2,579,133**	**29,433,434**

The maturity analysis of financial liabilities as 31 December 2019 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**
Liabilities					
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	10,131	4,921	-	**105,996**
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	-	-	1,213,598	-	**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 and letters of credit	84,103	176,822	89,342	590	**350,857**
Other credit related commitments	1,150,110	-	-	-	**1,150,110**
Total potential future payments for financial obligations	**11,644,718**	**3,753,953**	**8,367,777**	**3,048,020**	**26,814,468**

The undiscounted financial liability analysis 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.

23 Financial and Other Risk Management (Continued)

Maturity analysis (Continued)

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 30 June 2020, the analysis by expected maturities may be as follows:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 1 to 5 Years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents	981,803	-	-	-	**981,803**
Due from other banks	18,502	2,000	10,377	-	**30,879**
Mandatory cash balances with National Bank of Georgia	1,794,010	-	-	-	**1,794,010**
Loans and advances to customers	1,490,878	2,183,624	5,479,768	3,951,718	**13,105,988**
Investment securities measured at fair value through other comprehensive income	1,082,520	-	-	-	**1,082,520**
Bonds carried at amortised cost	185,488	210,779	682,114	257,034	**1,335,415**
Net investments in leases	53,618	71,187	142,718	2,649	**270,172**
Insurance and Reinsurance Receivables	7,359	13,667	-	-	**21,026**
Other financial assets	144,808	1,174	7,370	-	**153,352**
Total financial assets	**5,758,986**	**2,482,431**	**6,322,347**	**4,211,401**	**18,775,165**
Liabilities					
Due to Credit institutions	1,929,671	714,446	1,683,992	75,297	**4,403,406**
Customer accounts	1,321,625	466,582	-	8,632,123	**10,420,330**
Debt securities in issue	139	-	1,396,002	-	**1,396,141**
Other financial liabilities	121,993	7,569	1,075	-	**130,637**
Lease liabilities	3,199	9,363	47,589	5,786	**65,937**
Insurance contract liabilities	1,950	6,162	-	-	**8,112**
Subordinated debt	350	13,348	107,006	507,945	**628,649**
Total financial liabilities	**3,378,927**	**1,217,470**	**3,235,664**	**9,221,151**	**17,053,212**
Credit related commitments and performance guarantees					
Performance guarantees	5,967	-	-	-	**5,967**
Financial guarantees	7,209	-	-	-	**7,209**
Other credit related commitments	165,613	-	-	-	**165,613**
Credit related commitments and performance guarantees	**178,789**	**-**	**-**	**-**	**178,789**
Net liquidity gap as at 30 June 2020	**2,201,270**	**1,264,961**	**3,086,683**	**(5,009,750)**	**1,543,164**
Cumulative gap as at 30 June 2020	**2,201,270**	**3,466,231**	**6,552,914**	**1,543,164**	

23 Financial and Other Risk Management (Continued)

Maturity analysis (Continued)

As at 31 December 2019, the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
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 lease	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**
Liabilities					
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	-	-	1,213,598	-	**1,213,598**
Other financial liabilities	90,944	10,131	4,921	-	**105,996**
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**	**627,106**	**2,867,306**	**9,373,516**	**15,621,365**
Credit related commitments and performance guarantees					
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 at 31 December 2019	**2,306,121**	**1,989,617**	**2,960,179**	**(5,612,682)**	**1,643,235**
Cumulative gap as at 31 December 2019	**2,306,121**	**4,295,738**	**7,255,917**	**1,643,235**	

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

24 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 interim financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as it will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax legislation

Georgian, Azerbaijani and Uzbekistan 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 30 June 2020 and 31 December 2019 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. The Group was in compliance with all covenants as of 30 June 2020 and as of 31 December 2019.

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.

Outstanding credit related commitments are as follows:

In thousands of GEL	**30 June 2020**	**31 December 2019**
Financial guarantees issued	239,659	241,124
Undrawn credit lines	1,316,541	1,150,110
Letters of credit issued	139,249	109,733
Total credit related commitments (before provision)	**1,695,449**	**1,500,967**
Provision for credit related commitments	(7,209)	(4,511)
Total credit related commitments	**1,688,240**	**1,496,456**

24 Contingencies and Commitments (Continued)

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 at 30 June 2020 included in undrawn credit lines above were GEL 552,313 thousand (31 December 2019: GEL 472,485 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 at 30 June 2020 amounted to GEL 1,617,636 thousand and GEL 5,967 thousand (31 December 2019: GEL1,458,884 thousand and GEL 7,466 thousand).

Fair value of credit related commitments and financial guarantees provisions was GEL 7,209 thousand as at 30 June 2020 (31 December 2019: GEL 4,511 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	**30 June 2020**	**31 December 2019**
Georgian Lari	1,173,559	1,155,422
US Dollars	1,323,918	1,203,296
Euro	757,348	542,303
Other	58,260	58,830
Total	**3,313,085**	**2,959,851**

Capital expenditure commitments**.** As at 30 June 2020, the Group has contractual capital expenditure commitments amounting to GEL 33,416 thousand (31 December 2019: GEL 33,723 thousand). Out of total amount contractual commitments related to the head office construction amounted GEL 11,544 thousand (31 December 2019: GEL 13,186 thousand).

25 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:

	30 June 2020				31 December 2019*			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities measured at fair value through other comprehensive income								
- Certificates of Deposits of National Bank of Georgia	**-**	-	**-**	**-**	-	40,346	-	**40,346**
- Corporate bonds	**-**	601,738	-	**601,738**	-	611,000	-	**611,000**
- Netherlands Government Bonds	-	1,707	-	**1,707**	-	1,596	-	**1,596**
- Ministry of Finance Treasury Bills	**-**	476,168	**-**	**476,168**	-	329,352	-	**329,352**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	17,848	-	**17,848**	-	5,849	-	**5,849**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**1,097,461**	**-**	**1,097,461**		**988,143**		**988,143**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
- Interest rate swaps included in other financial liabilities	-	-	-	**-**	-	-	-	**-**
- Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**-**	21,459	**-**	**21,459**	-	20,266	-	**20,266**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**21,459**	**-**	**21,459**	-	**20,266**	**-**	**20,266**

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

There were no transfers between levels during the six months ended 30 June 2020 (2019: none).

25 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements (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 30 June 2020	Fair value 31 December 2019	Valuation technique	Inputs used
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	1,079,613	982,295	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	17,848	5,848	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**1,097,461**	**988,143**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Foreign exchange forwards included in other financial liabilities	21,459	20,266	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**21,459**	**20,266**		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the six month period ended 30 June 2020 (2019: none).

25 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:

In thousands of GEL	30 June 2020 Level 1	30 June 2020 Level 2	30 June 2020 Level 3	30 June 2020 Carrying Value	31 December 2019* Level 1	31 December 2019* Level 2	31 December 2019* Level 3	31 December 2019* Carrying Value
FINANCIAL ASSETS								
Cash and cash equivalents	659,556	322,248	-	**981,803**	650,700	352,883	-	**1,003,583**
Due from other banks	-	30,879	-	**30,879**	-	33,605	-	**33,605**
Mandatory cash balances with the NBG	-	1,794,010	-	**1,794,010**	-	1,591,829	-	**1,591,829**
Loans and advances to customers:								
- Corporate loans	-	-	4,173,977	**4,962,011**	-	-	4,838,348	**4,579,723**
- Consumer loans	-	-	1,927,632	**1,735,223**	-	-	1,876,364	**1,750,050**
- Mortgage loans	-	-	3,491,085	**3,325,370**	-	-	3,354,901	**3,137,492**
- MSME	-	-	3,064,959	**3,083,384**	-	-	2,891,382	**2,882,134**
Bonds carried at amortised cost	-	1,318,863	-	**1,335,415**	-	990,537	-	**1,022,684**
Net investments in leases	-	-	272,806	**270,172**	-	-	265,165	**256,660**
Other financial assets	-	-	156,531	**174,378**	-	-	127,888	**127,888**
NON-FINANCIAL ASSETS								
Investment properties	-	-	117,186	**70,716**	-	-	123,325	**72,667**
Premises and leasehold improvements	-	-	209,356	**159,624**	-	-	262,103	**162,637**
TOTAL ASSETS	**659,556**	**3,466,000**	**13,413,532**	**17,922,984**	**650,700**	**2,968,854**	**13,739,476**	**16,620,952**
FINANCIAL LIABILITIES								
Due to credit institutions	-	4,400,614	-	**4,403,406**	-	3,600,318	-	**3,593,901**
Customer accounts	-	6,425,637	3,968,863	**10,420,330**	-	6,480,250	3,580,630	**10,049,324**
Debt securities in issue	1,295,606	-	-	**1,323,903**	1,136,297	-	-	**1,136,297**
Other financial liabilities	-	183,228	-	**183,228**	-	153,240	-	**153,240**
Subordinated debt	-	632,828	-	**628,649**	-	594,893	-	**591,035**
TOTAL LIABILITIES	**1,295,606**	**11,642,307**	**3,968,863**	**16,959,516**	**1,136,297**	**10,828,701**	**3,580,630**	**15,523,797**

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

The fair values of financial assets and liabilities 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.

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 six months ended 30 June 2020 (2019: none).

26 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 more than 10% of ownership stake 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.

As of 30 June 2020, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 5.3% - 36.0%)	66	10,264
Credit loss allowance for loans and advances to customers	-	15
Customer accounts (contractual interest rate: 0% – 11.5 %)	14,054	11,656

The income and expense items with related parties except from key management compensation during the period end 30 June 2020 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income	4	164
Interest expense	1	2
Gains less losses from trading in foreign currencies	123	424
Fee and commission income	18	19
Administrative and other operating expenses (excluding staff costs)	-	281

The aggregate loan amounts advanced to, and repaid, by related parties during the period end 30 June 2020 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the period	59	1,232
Amounts repaid by related parties during the period	(39)	(1,265)

As of 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 6.6% – 36.0%)	77	9,723
Credit loss allowance for loans and advances to customers	-	1
Customer accounts (contractual interest rate: 0.0% – 11.5%)	16,418	12,997

26 Related Party Transactions (Continued)

The income and expense items with related parties except from key management compensation during the period ended 30 June 2019 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Interest income - loans and advances to customers	35	361
Interest expense	53	97
Gains less losses from trading in foreign currencies	53	23
Foreign exchange translation gains less losses	389	(968)
Fee and commission income	37	17
Administrative and other operating expenses (excluding staff costs)	104	208

Aggregate amounts of loans advanced to and repaid by related parties during the six months ended 30 June 2019 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the period	176	5,143
Amounts repaid by related parties during the period	(1,037)	(4,081)

The compensation of the TBCG Board of Directors and the Bank's Management Board is presented below:

	Expense over the six months ended		Accrued liability as of	
In thousands of GEL	30 June 2020	30 June 2019	30 June 2020	31 December 2019
Salaries and bonuses	4,753	6,263	102	-
Cash settled bonuses related to share-based compensation	-	(1,627)	-	-
Equity-settled share-based compensation	4,945	9,444	-	-
Total	**9,698**	**14,080**	**102**	**-**

Included in salaries and bonuses for six months ended 30 June 2020 GEL 1,329 thousand relates to compensation for directors of TBCG paid by TBC Bank Group PLC (six months ended 30 June 2019: GEL 1,782 thousand).

[1] A full list of related undertakings and the country of incorporation is set out below.

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
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
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
TBC Bank JSCB	12 Shota Rustaveli St. Tashkent, Uzbekistan
Support LLC	12 Shota Rustaveli St. Tashkent, Uzbekistan
Natural Products of Georgia LLC	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Mobi Plus JSC	45 Vajha Pshavela Street, 0177, Tbilisi, Georgia
Mineral Oil Distribution Corporation JSC	11 Tskalsadeni Street, 0153, Tbilisi, Georgia
Georgian Card JSC	106 Beliashvili Street, 0159, Tbilisi Georgia
Georgian Securities Central Depositor	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia
JSC Givi Zaldastanishvili American Academy In Georgia	37 Chavchavadze Avenue, 0162, Tbilisi Georgia
United Clearing Centre	5 Sulkhan Saba Street, 0105, Tbilisi, Georgia
GRDC	2 Vagzali Square, 0112, Tbilisi, Georgia
Banking and Finance Academy of Georgia	123, Agmashenebeli Avenue, 0112, Tbilisi, Georgia
Tbilisi's City JSC	15 Rustaveli Avenue, 0108, Tbilisi Georgia
TBC Trade	11A Chavchavadze Ave, 0179, Tbilisi, Georgia
TBC Support LLC	12 Rustaveli Avenue, 0108, Tbilisi Georgia
Redmed LLC	24 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia