
# TBC BANK GROUP PLC

## 2Q AND 1H 2021 FINANCIAL RESULTS

TBC BANK Group PLC

www.tbcbankgroup.com

# TBC BANK GROUP PLC ("TBC Bank")
# 2Q AND 1H 2021 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 the necessary regulatory approvals and licenses; the impact of developments in the Georgian economy; 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 regulations, 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 accounts and financial statements. The areas in which the management 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 2021 Unaudited Consolidated Financial Results Conference Call

TBC Bank Group PLC ("TBC PLC") will release its second quarter and first half of 2021 unaudited consolidated financial results on Wednesday, 18 August 2021 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 (EDT).

Please click the link below to join the webinar:

https://tbc.zoom.us/j/93113731736?pwd=MWhLNHlPSVVNRlZVUUxkLzZiVFdNZz09

Webinar ID: **931 1373 1736**
Passcode: **124283**

Or, use the following dial-ins:

- **Georgia:** +995 3224 73988 or +995 7067 77954 or 800 100 293 (Toll Free)
- **The 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 0276 (Toll Free) or 833 548 0282 (Toll Free) or 877 853 5257 (Toll Free) or 888 475 4499 (Toll Free)
- **Russia:** 8800 100 6938 (Toll Free) or 8800 301 7427 (Toll Free)

Webinar ID **931 1373 1736#**, please dial the ID number slowly.

Other international numbers available at: https://tbc.zoom.us/u/aeIeUaqK4W

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.

## Contacts


**Zoltan Szalai**
**Director of International Media and Investor Relations**

E-mail: ZSzalai@Tbcbank.com.ge
Tel: +44 (0) 7908 242128
Web: www.tbcbankgroup.com
Address: 68 Lombard St, London EC3V 9LJ, United Kingdom

**Anna Romelashvili**
**Head of Investor Relations**

E-mail: IR@tbcbank.com.ge
Tel: +(995 32) 227 27 27
Web: www.tbcbankgroup.com
Address: 7 Marjanishvili St. Tbilisi, Georgia 0102

**Investor Relations Department**

E-mail: IR@tbcbank.com.ge
Tel: +(995 32) 227 27 27
Web: www.tbcbankgroup.com
Address: 7 Marjanishvili St. Tbilisi, Georgia 0102

# Table of Contents

## 2Q and 1H 2021 Results Announcement

# TBC Bank’s Unaudited 2Q and 1H 2021 Consolidated Financial Results

# Record high profitability on the back of strong revenue generation and improved performance on asset quality side

*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 2021, does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2020, which contained an unmodified audit report under Section 495 of the Companies Act 2006 and 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.*

## Key Results Highlights

**2Q 2021 P&L Highlights**

- Profit for the period amounted to GEL 250.4 million (2Q 2020: GEL 126.2 million)
- Operating income[1] amounted to GEL 380.3 million (2Q 2020: GEL 250.0 million)
- Operating expenses amounted to GEL 134.7 million (2Q 2020: GEL 95.1 million)
- Return on average equity (ROE) stood at 31.0% (2Q 2020: 19.5%)
- Return on average assets (ROA) stood at 4.4% (2Q 2020: 2.6%)
- Cost to income of TBC Bank Group PLC stood at 35.4% (2Q 2020: 38.0%)
- Standalone cost to income ratio of the Bank[2] was 28.6% (2Q 2020: 32.3%)
- Cost of risk stood at -1.3% (2Q 2020: 0.0%)
- Net interest margin (NIM) stood at 5.0% (2Q 2020: 4.3%)
- Basic earnings per share stood at GEL 4.55 (2Q 2020: 2.30)
- Diluted earnings per share stood at GEL 4.49 (2Q 2020: 2.29)

**1H 2021 P&L Highlights**

- Profit for the period amounted to GEL 403.4 million (1H 2020: GEL 69.2 million)
- Operating income[1] amounted to GEL 691.4 million (1H 2020: GEL 540.3 million)
- Operating expenses amounted to GEL 256.9 million (1H 2020: GEL 201.5 million)
- Return on average equity (ROE) stood at 25.9% (1H 2020: 5.2%)
- Return on average assets (ROA) stood at 3.6% (1H 2020: 0.7%)
- Cost to income of TBC Bank Group PLC stood at 37.2% (1H 2020: 37.3%)
- Standalone cost to income ratio of the Bank[2] was 30.6% (1H 2020: 32.0%)
- Cost of risk stood at -0.4% (1H 2020: 2.1%)
- Net interest margin (NIM) stood at 4.8% (1H 2020: 4.7%)
- Basic earnings per share stood at GEL 7.33 (2Q 2020: 1.24)
- Diluted earnings per share stood at GEL 7.24 (2Q 2020: 1.23)

**Balance Sheet Highlights as of 30 June 2021**

- Gross loans and advances to customers stood at GEL 15,274.9 million, up by 12.0% YoY or at 8.5% on a constant currency basis
- Total customer deposits amounted to GEL 12,870.4 million, up by 23.5% YoY or 20.1% on constant currency basis
- NPLs were 3.4%, up by 0.5 pp YoY
- NPL provision coverage and total coverage ratios stood at 91.3%, or 169.6%, respectively on 30 June 2021 compared to 134.7% or 208.0%, as of 30 June 2020
- Net loans to deposits + IFI funding stood at 102.8%, down by 2.5 pp YoY, and Regulatory Net Stable Funding Ratio (NSFR), stood at 130.6% up by 3.1 pp YoY

[1] Operating income includes net interest income, net fee and commission income and other non-interest income
[2] For the ratio calculation, all relevant group recurring costs are allocated to the Bank.

- The Bank's Basel III CET 1, Tier 1 and Total Capital Adequacy Ratios per the NBG's methodology stood at 13.0%, 15.5%, and 19.6%, respectively, compared to minimum regulatory requirements including restored buffers of 11.2%, 13.5%, and 17.8%, respectively

**Market Shares as of 30 June 2021**[3]

- Market share by total assets reached 38.2%, up by 0.3 pp YoY (#1 position)
- Market share by total loans was 38.1%, down by 1.4 pp YoY (#1 position)
- Market share of total deposits reached 37.8%, up by 0.7 pp YoY (#2 position)

**Digital Highlights for 2Q 2021**

- Active retail digital users[4] increased by 15.8% YoY and amounted to 688,000
- Average daily active retail digital users (DAU)[5] in June increased by 27.0 % YoY and stood at 249,000
- Average daily active retail digital users (DAU) divided by monthly active retail digital users (MAU)[6] stood at 41.8% in June 2021 (June 2020: 38.6%)
- 97% of all transactions were conducted through digital channels[7] (2Q 2020: 96%)
- The penetration ratio for internet and mobile banking[8] stood at 53% for 2Q 2021 (2Q 2020: 47%)

**TBC UZ Highlights**

- The number of registered users increased more than four times since March 2021 and stood at around 403,000 by the end of July.
- During the second quarter 2021, we enriched our existing unsecured consumer-lending proposition with new types of loans and added new savings options for deposits.
- Our call center and online support services received the highest customer satisfaction score among 27 Uzbek banks, according to an independent survey conducted by Bank.uz.
- Our loan portfolio amounted to GEL 31.8 million in July 2021, compared to GEL 1.0 million in March 2021.
- Our deposit portfolio amounted to GEL 49.6 million in July 2021, compared to GEL 2.8 million in March 2021.

*For more financial information about our Uzbek subsidiary, please refer to Annex 4.*

[3] Market share figures are based on data from the National Bank of Georgia (NBG), which includes interbank loans.
[4] Active digital users include unique users of TBC Bank internet and mobile banking, Space app and TBC Pay mobile app.
[5] Users with at least one visit on our internet or mobile banking application every day during the given period. Average DAU is an average number of daily active retail digital users for the given period.
[6] DAU/MAU equals daily active digital users divided by monthly active digital users. Figures are given for TBC Bank internet & mobile banking only
[7] Including Space transactions
[8] Internet and mobile banking penetration equals the number of active digital users divided by the total number of active clients.

## Letter from the Chief Executive Officer

I am delighted to present a strong set of financial results for the second quarter and first half of 2021 on the back of an impressive recovery in the macroeconomic environment. Our outstanding performance resulted in solid capital generation, which allowed the Board to declare an interim dividend of GEL 1.5 per share payable in second half of September 2021. We also continue to deliver on our strategic objectives and I am particularly pleased with the results of our Uzbek business, which has been growing faster than our expectations.

**Strong economic rebound**

The Georgian economy has rebounded at a speed that exceeded even the most optimistic expectations. Importantly, this growth has been broad-based, supported by strong external inflows and increased domestic demand. According to the preliminary estimates of Geostat[9], the economy posted 29.8% year-on-year real growth in the second quarter. While the low base a year ago played a role, in the second quarter the economy surpassed even its 2019 level by 12.6%. Together with an exceptional performance in exports, the continued strong flow of remittances and a gradual recovery in tourism, record-low interest rates on US$ deposits stimulated consumer spending and real estate investments. Bank credit displayed a solid rebound in the second quarter with 12.6% year-on-year growth in FX adjusted terms, which is also strongly supportive to the outlook. While COVID-19 and election related uncertainties pose downside risks to the outlook, real GDP growth for the year is likely to be above 10.0%, even under conservative assumptions.

**Strong financial performance**

In the second quarter of 2021, our consolidated net profit amounted to GEL 250.4 million, almost doubling year-on-year, while our return on equity and return on assets stood at 31.0% and 4.4%, respectively.

Our profitability was driven by strong income generation both in the interest and non-interest income categories. Net interest margin returned to its pre-pandemic level and amounted to 5.0%, while net fee and commission income increased by 59.4% year-on-year, primarily due to the revival of business activities, the fast growth at our Uzbek subsidiary, Payme, as well as various business initiatives undertaken in our domestic payments business. The growth in other operating income was partially related to the gain received from sale of one of our investment properties.

Our strong operating income was further supported by recoveries of credit loss allowances due to the improved macro outlook on the back of the better than expected economic performance, as well as repayment from a single large CIB borrower. As a result, our cost of risk decreased to -1.3% in the second quarter 2021. Over the same period, our cost to income ratio dropped to 35.4%, down by 2.6pp year-on-year. This was driven by strong income generation, which offset the growth in operating expenses. At the same time, the stand-alone cost to income ratio for the Bank stood at 28.6%[10].

Our strong financial performance in the second quarter of 2021, coupled with resilient results in the first quarter of 2021, resulted in consolidated net profit of GEL 403.4 million in the first half 2021. Over the same period, return on equity stood at 25.9% and return on assets stood at 3.6%.

Our loan book increased by 8.5% year-on-year in constant currency terms, which translated into a 38.1% market share. Over the same period, our deposits increased by 20.1% in constant currency terms. As a result, our market share in total deposits amounted to 37.8% as of 30 June 2021.

As of 30 June 2021, our CET1, Tier 1 and Total Capital ratios stood at 13.0%, 15.5% and 19.6%, respectively, comfortably above the respective minimum regulatory requirements including the restored buffers of 11.2%, 13.5% and 17.8%. We continue to maintain a robust liquidity position, with net stable funding (NSFR) and liquidity coverage ratios (LCR) standing at 130.6% and 127.1%, respectively, as of 30 June 2021.

**Progress towards our strategic objectives**

During the quarter, we concentrated our efforts on increasing the utilization of digital channels, enhancing our payments business, as well as expanding our Uzbek operations in line with our strategic priorities. Furthermore, we continue to make further progress in relation to our environmental, social and governance matters ("ESG").

[9] National Statistics Office of Georgia

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

- The number of retail digital transactions during the second quarter of 2021 increased by 53.1% year-on-year and by 19.1% quarter-on-quarter. Over the same period, the number of digital sales also remained strong. The consumer loan sales offloading ratio[11] amounted to 37%, while the deposit sales offloading ratio[12] stood high at 72%.

- The volume of payment transactions went up by 26% quarter-on-quarter, while the number of transactions increased by 22% in the second quarter of 2021. As the leading payments provider in the country, we are constantly working on enhancing payments solutions for our customers. In June, we launched a new platform, Payments Space (available on www.tbcpayments.ge), for our merchants, which allows them to easily control their daily transactions, receive analytical reports and manage their payments products.

- Our Uzbek business demonstrated remarkable results over the recent period. The number of registered and active users of our digital banking app TBC UZ continued its rapid growth and reached 403,000 and 135,000, respectively, as of 31 July 2021. We have also started expanding outside Tashkent and already operate 34 client acquisition points in 11 regional cities. Our loan book and deposit portfolio continued their steady growth and reached GEL 31.8 million and GEL 49.6 million, respectively, as of 31 July 2021, while the total number of transactions more than tripled in July compared to March.

- Our Uzbek payments subsidiary, Payme, also continued its rapid growth, driven by P2P transfers and utility payments, which together accounted for around 94% of total volume of transactions conducted in the second quarter 2021. Over the same period, the number of its registered users reached 3.5 million, up by 52.2% year-on-year. In terms of financial metrics, Payme's revenue during the quarter increased by 86.8% year-on-year to GEL 6.6 million, while net profit grew by 81.9% year-on-year to GEL 4.1 million.

- TBC Bank has received accreditation by the Green Climate Fund (GCF), making it the first commercial bank in the Caucasus region to receive this accreditation. It will enable TBC Bank to have direct access to GCF funding to finance various green projects. In addition, we have published our full-scale Sustainability Report for the second year in a row, which is available at www.tbcbankgroup.com. Finally, I am proud to say that our investment banking subsidiary, TBC Capital, participated as joint lead manager in the very successful placement of US$ 500 million Green Eurobonds by Georgian Railway on the London Stock Exchange, a very important transaction for our country. It is only the second Green Eurobond issued from Georgia, and last year, TBC Capital was co-manager of the first such issuance, by "Georgia Global Utilities".

**Outlook**

Our strong financial results and continued progress towards our strategic objectives during the first half of 2021 together with revived business activities and positive macroeconomic outlook fill me with optimism about the rest of 2021.

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

[11] Includes consumer loans issued via internet and mobile bank, call center, web platform tbccredit.ge and Space to total consumer loans issued

[12] Includes deposits opened through internet and mobile banking, call center and Space to total deposits opened

## Economic Overview

**Economic growth**

After a 4.5% drop in the first quarter of 2021, Georgia's economy showed unexpected strength in April with real GDP reaching a 44.8% year-on-year expansion, followed by similarly solid year-on-year growth of 25.8% and 18.7% in May and June 2021, respectively. The year-on-year growth in the second quarter was 29.8%. Taking into account the easing restrictions, the upturn in the external sector and the global recovery, it can be firmly stated that the economy has embarked on a rebound path. Real GDP in 2021 had already substantially surpassed 2019 levels, being around a 5.3% higher in the first half of the year and 12.6% higher – in the second quarter.

**External sectors**

Similar to GDP, the external sector experienced a strong rebound in 2Q 2021 with exports growing by 47.1% year-on-year and 10.9% compared with 2Q 2019. Notably, domestic exports lead the recovery with the share of re-exports in the total exports decreasing significantly, from 41.4% in 2Q 2019 to 27.5% in 2Q 2021. Despite the ongoing recovery in the tourism related imports and re-exports, imports of goods also went up by 44.8% YoY in 2Q 2021and by 1.3% when compared with the same period in 2019. Importantly, the rebound in the trade in goods was broad based, reflecting the increased overall external as well as the domestic demand.

Remittance inflows were also very strong with a 53.5% increase YoY in the second quarter and a 36.8% increase compared to the same period in 2019. Although part of the rebound compared with 2019 can be attributed to the border closures and more cash remittances being transferred through the digital channels, overall growth is still substantial given that the share of cash inflows is only likely to be around 10.0% -15.0%, according to the NBG's estimates.

Tourism inflows in 2Q 2021 increased by 753.3% year-on-year in US$ terms, while dropping by 72.0% compared to the same period in 2019. This was a significant improvement after a 90.7% drop in the first quarter compared to 2019. The latest monthly dynamics are also promising: 64.0% decline in June 2021compared with June 2019, while early indicators based on the spending by non-residents through TBC Bank's channels suggest an even more sizable rebound in July[13]. Overall, even taking into account increased risks due to a higher number of infection cases, TBC Capital's latest projection of tourism inflows to recover by around 40.0% in 2021 compared to 2019 still looks reasonable[14].

**Fiscal stimulus**

The fiscal deficit is also expected to remain large in 2021 at an estimated 6.9% of GDP following a deficit of 9.3% of GDP in 2020. However, according to the Ministry of Finance, fiscal consolidation is expected in the coming years with deficit-to-GDP ratios of 4.4%, 3.0% and 2.7% in 2022, 2023 and 2024, respectively. Importantly, the major source of deficit financing in 2020-2021 was an external one, largely compensating for the pandemic related drop in net inflows.

**Credit growth**

By the end of 2Q 2021, bank credit growth has increased to 12.6% year-on-year, compared to a 7.8% year-on-year growth by the end of 1Q 2021. In terms of segments, MSME lending growth has increased by 5.5pp from 1Q 2021 to 2Q 2021 and amounted to 18.1% year-on year. Corporate lending also increased from 3.5% at the end of 1Q 2021 to 8.3% year-on-year, respectively. Growth in the retail sector, increased by 4.3pp to 12.6% year-on-year on the back of stronger mortgage and non-mortgage loans growth.

**Inflation, monetary policy and the exchange rate**

After the depreciation against the US$ in the first quarter of 2021, the GEL has regained some of its value since May, mainly on the back of higher exports, remittances, tourism inflows and a tighter monetary policy stance with a refinancing rate of 10.0%. Due to stronger inflows, the NBG has eased its FX market operations, selling US$ 83.7 million in April and only US$ 9.3 million in June. On the other hand, year-on-year inflation reached 11.9% in July, mainly due to the earlier depreciation of GEL and higher commodity and utility prices. Inflation is expected to moderate somewhat throughout the year before reaching the target of 3.0% in 2022.

[13] Tracking the recovery, July 23, 2021, TBC Capital

[14] Macro Insights: Restart in action - only partially led by the tourism recovery, July 1, 2021, TBC Capital

**Going forward**

With a stronger than expected rebound in the second quarter, TBC Capital's forecast for real GDP growth in 2021 has been revised upwards to 10.5% followed by a solid 6.5% growth in 2022. Meanwhile, in June the World Bank revised their 2021 growth projections for Georgia from 4.0% to 6.0%, while the IMF increased their forecast in July from 3.5% to 7.7%

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

## Unaudited Consolidated Financial Results Overview for 2Q 2021

*This statement provides a summary of the unaudited business and financial trends for 2Q 2021 for TBC Bank Group plc and its subsidiaries. The quarterly financial information and trends are unaudited.*

*TBC Bank Group PLC's financial results has been prepared in accordance with UK-adopted International Accounting Standard (IAS) 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority (FCA).*

*Please note that there might be slight differences in previous periods' figures due to rounding.*

## Financial Highlights

**Income Statement Highlights**

| *in thousands of GEL* | **2Q'21** | **1Q'21** | **2Q'20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| Net interest income | 242,767 | 225,131 | 184,365 | *31.7%* | *7.8%* |
| Net fee and commission income | 63,008 | 45,293 | 39,517 | *59.4%* | *39.1%* |
| Other operating non-interest income[15] | 74,512 | 40,665 | 26,161 | *NMF* | *83.2%* |
| Credit loss allowance | 45,291 | (17,244) | (12,586) | *NMF* | *NMF* |
| **Operating profit after expected credit losses** | **425,578** | **293,845** | **237,457** | ***79.2%*** | ***44.8%*** |
| Losses from modifications of financial instrument | (104) | (1,487) | (3,527) | *-97.1%* | *-93.0%* |
| Operating expenses | (134,688) | (122,240) | (95,059) | *41.7%* | *10.2%* |
| **Profit before tax** | **290,786** | **170,118** | **138,871** | ***NMF*** | ***70.9%*** |
| Income tax expense | (40,394) | (17,131) | (12,665) | *NMF* | *NMF* |
| **Profit for the period** | **250,392** | **152,987** | **126,206** | ***98.4%*** | ***63.7%*** |

**Balance Sheet and Capital Highlights**

| *in thousands of GEL* | **Jun-21** | **Mar-21** | **Jun-20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| Total Assets | 22,091,541 | 23,617,046 | 19,813,429 | *11.5%* | *-6.5%* |
| Gross Loans | 15,274,926 | 15,332,209 | 13,635,392 | *12.0%* | *-0.4%* |
| Customer Deposits | 12,870,418 | 14,239,837 | 10,420,330 | *23.5%* | *-9.6%* |
| Total Equity | 3,336,825 | 3,125,735 | 2,653,405 | *25.8%* | *6.8%* |
| Regulatory Common Equity Tier I Capital (Basel III) | 2,382,595 | 2,059,599 | 1,631,006 | *46.1%* | *15.7%* |
| Regulatory Tier I Capital (Basel III) | 2,837,805 | 2,550,144 | 2,068,052 | *37.2%* | *11.3%* |
| Regulatory Total Capital (Basel III) | 3,573,282 | 3,327,134 | 2,787,136 | *28.2%* | *7.4%* |
| Regulatory Risk Weighted Assets (Basel III) | 18,275,845 | 18,921,231 | 16,249,475 | *12.5%* | *-3.4%* |

| **Key Ratios** | **2Q'21** | **1Q'21** | **2Q'20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| ROE | 31.0% | 20.3% | 19.5% | *11.5 pp* | *10.7 pp* |
| ROA | 4.4% | 2.7% | 2.6% | *1.8 pp* | *1.7 pp* |
| NIM | 5.0% | 4.7% | 4.3% | *0.7 pp* | *0.3 pp* |
| Cost to income | 35.4% | 39.3% | 38.0% | *-2.6 pp* | *-3.9 pp* |
| Standalone cost to income of the Bank[16] | 28.6% | 33.1% | 32.3% | *-3.7 pp* | *-4.5 pp* |
| Cost of risk | -1.3% | 0.5% | 0.0% | *-1.3pp* | *-1.8 pp* |
| NPL to gross loans | 3.4% | 4.8% | 2.9% | *0.5 pp* | *-1.4 pp* |
| NPL provision coverage ratio | 91.3% | 81.0% | 134.7% | *-43.4pp* | *10.3 pp* |
| Total NPL coverage ratio | 169.6% | 154.4% | 208.0% | *-38.4 pp* | *15.2 pp* |
| CET 1 CAR (Basel III) | 13.0% | 10.9% | 10.0% | *3.0 pp* | *2.1 pp* |
| Regulatory Tier 1 CAR (Basel III) | 15.5% | 13.5% | 12.7% | *2.8 pp* | *2.0 pp* |
| Regulatory Total CAR (Basel III) | 19.6% | 17.6% | 17.2% | *2.4 pp* | *2.0 pp* |
| Leverage (Times) | 6.6x | 7.6x | 7.5x | *-0.9 pp* | *1.0 pp* |

[15] Other operating non-interest income includes net insurance premium earned after claims and acquisition costs.
[16] For the ratio calculation, all relevant group recurring costs are allocated to the Bank.

## Net Interest Income

In 2Q 2021, net interest income amounted to GEL 242.8 million, up by 31.7% YoY and 7.8% on a QoQ basis.

The YoY rise in interest income by GEL 65.5 million, or 16.7%, was mainly driven by an increase in interest income from loans related to a growth in the gross loan portfolio of GEL 1,639.5 million, or 12.0%, together with an increase in the respective yield by 0.5pp.

In 2Q 2021, interest expense increased by GEL 10.7 million, or 5.0%, mainly driven by an increase in interest expense from deposits, which was related to a growth in the respective portfolio of GEL 2,450.1 million, or 23.5% YoY. Over the same period, the cost of deposits stood at 3.4% and remained broadly flat YoY. The growth was partially offset by a decrease in interest expense from other borrowed funds, on the back of a decline in the respective portfolio by GEL 821.5 million, or 19.8%. Overall, the change in liability structure towards deposits had a positive effect on our cost of funding, which dropped by 0.4pp on a YoY basis.

The increase in interest income on a QoQ basis of GEL 18.0 million, or 4.1%, was mainly driven by an increase in interest income from loans to customers on the back of 0.4pp growth in loan yields. This increase was mainly attributable to GEL loan yields, on the back of an increase in the refinance rate. Over the same period, the loan portfolio remained broadly stable.

The increase in interest expense of GEL 2.5 million, or 1.1% on a QoQ basis, was mainly driven by an increase in other borrowed funds on the back of a rise in the respective yield by 1.4pp. The increase in GEL yields was due to growth in the refinance rate, while the increase in FC yields was related to prepayment fees on certain borrowed funds. The respective portfolio decreased by GEL 109.1 million, or 3.2%. This increase was partially offset by a decrease in interest expense from customer accounts, which was attributable to decrease in a Ministry of Finance deposits and the release of a single short-term CIB depositor. As a result, the respective portfolio decreased by GEL 1,369.4 million, or 9.6% on a QoQ basis.

In 2Q 2021, our NIM stood at 5.0%, up by 0.7pp YoY and 0.3pp on a QoQ basis.

| *In thousands of GEL* | **2Q'21** | **1Q'21** | **2Q'20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| Interest income | 458,572 | 440,613 | 393,114 | 16.7% | 4.1% |
| Interest expense | (223,456) | (220,980) | (212,714) | 5.0% | 1.1% |
| Net gains from currency swaps | 7,651 | 5,498 | 3,965 | 93.0% | 39.2% |
| **Net interest income** | **242,767** | **225,131** | **184,365** | **31.7%** | **7.8%** |
| | | | | | |
| **NIM** | **5.0%** | **4.7%** | **4.3%** | **0.7 pp** | **0.3 pp** |

## Net fee and commission income

In 2Q 2021, net fee and commission income totaled GEL 63.0 million, up by 59.4% YoY and 39.1% QoQ.

The strong YoY and QoQ increases were attributable to the revival of business activities in 2Q 2021, which was further supported by various initiatives undertaken on our domestic payments business, which resulted in upgrading the existing cards with higher class cards and the contribution of our fast-growing Uzbek payments subsidiary, Payme.

| *In thousands of GEL* | **2Q'21** | **1Q'21** | **2Q'20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| **Net fee and commission income** | | | | | |
| Card operations | 22,627 | 10,323 | 10,962 | NMF | NMF |
| Settlement transactions | 28,435 | 24,567 | 18,169 | 56.5% | 15.7% |
| Guarantees issued and letters of credit | 9,561 | 9,402 | 9,498 | 0.7% | 1.7% |
| Other | 2,385 | 1,001 | 888 | NMF | NMF |
| **Total net fee and commission income** | **63,008** | **45,293** | **39,517** | **59.4%** | **39.1%** |

## Other Non-Interest Income

Total other non-interest income increased significantly and amounted GEL 74.5 million in 2Q 2021.

Both the YoY and QoQ increases in other non-interest income were related to an increase in other operating income and net income from foreign currency operations. The former increase was driven by the gain from the disposal of one of our investment properties, in the amount of GEL 26.3 million, while the latter increase was due to an increase in the scale of FX transactions.

| *In thousands of GEL* | 2Q'21 | 1Q'21 | 2Q'20 | *Change YoY* | *Change QoQ* |
|---|---|---|---|---|---|
| **Other non-interest income** | | | | | |
| Net income from foreign currency operations | 31,372 | 28,507 | 19,137 | 63.9% | 10.1% |
| Net insurance premium earned after claims and acquisition costs[17] | 5,470 | 4,403 | 5,481 | -0.2% | 24.2% |
| Other operating income | 37,670 | 7,755 | 1,543 | NMF | NMF |
| **Total other non-interest income** | **74,512** | **40,665** | **26,161** | **NMF** | **83.2%** |

## Credit Loss Allowance

Credit loss allowance for loans in 2Q 2021 amounted to GEL 45.3 million. The recoveries of credit loss allowances were mainly attributable to improved macro outlook on the back of the better than expected economic performance, as well as repayment from a single large CIB borrower.

| *In thousands of GEL* | 2Q'21 | 1Q'21 | 2Q'20 | *Change YoY* | *Change QoQ* |
|---|---|---|---|---|---|
| Credit loss allowance for loan to customers | 50,112 | (17,549) | (8,191) | NMF | NMF |
| Credit loss allowance for other transactions | (4,821) | 305 | (4,395) | 9.7% | NMF |
| **Total credit loss allowance** | **45,291** | **(17,244)** | **(12,586)** | **NMF** | **NMF** |
| **Operating profit after expected credit losses** | **425,578** | **293,845** | **237,457** | **79.2%** | **44.8%** |
| | | | | | |
| **Cost of risk** | **-1.3%** | **0.5%** | **0.0%** | **-1.3 pp** | **-1.8 pp** |

## Operating Expenses

In 2Q 2021, our operating expenses expanded by 41.7% YoY and 10.2% on a QoQ basis.

The QoQ Increase in staff costs was related to the expansion of our Uzbek operations as well as one-off staff costs incurred in 2Q 2021. While the YoY increase was further amplified by restoration of management bonuses and increase in staff variable compensation driven by increased operating income.

The QoQ growth in administrative and other expenses was entirely attributable to expansion of the Uzbek operations, excluding Uzbekistan operation these costs would have remained flat QoQ. As for the YoY growth in administrative and other expenses, it was attributable to the low base in 2Q 2020 due to cost optimizations related to COVID-19 (including GEL 4.2 million from rent reduction per IFRS 16).

The growth in operating expenses was offset by our strong operating income, which resulted in exceptionally low cost to income ratio of 35.4% in 2Q 2021.

| *In thousands of GEL* | 2Q'21 | 1Q'21 | 2Q'20 | *Change YoY* | *Change QoQ* |
|---|---|---|---|---|---|
| **Operating expenses** | | | | | |
| Staff costs | (77,757) | (70,314) | (57,204) | 35.9% | 10.6% |
| Provisions for liabilities and charges | (54) | 45 | (59) | -8.5% | NMF |
| Depreciation and amortization | (19,337) | (17,364) | (16,427) | 17.7% | 11.4% |
| Administrative & other operating expenses | (37,540) | (34,607) | (21,369) | 75.7% | 8.5% |
| **Total operating expenses** | **(134,688)** | **(122,240)** | **(95,059)** | **41.7%** | **10.2%** |
| | | | | | |
| **Cost to income** | **35.4%** | **39.3%** | **38.0%** | **-2.6 pp** | **-3.9 pp** |
| **Standalone cost to income*** | **28.6%** | **33.1%** | **32.3%** | **-3.7 pp** | **-4.5 pp** |

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

## Net Income

In 2Q, we generated GEL 250.4 million in net profit, up by 98.4% YoY and 63.7% QoQ. Our record high profitability was driven by strong operating performance across all revenue categories, as well as recoveries in credit loss allowances across all segments.

As a result, our ROE and ROA for the second quarter reached 31.0% and 4.4%, accordingly, while ROE before credit loss allowances stood at 26.0%.

[17] Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit (as shown in Annex 3) 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'21 | 1Q'21 | 2Q'20 | *Change YoY* | *Change QoQ* |
|---|---|---|---|---|---|
| **Losses from modifications of financial instruments** | (104) | (1,487) | (3,527) | -97.1% | -93.0% |
| **Profit before tax** | **290,786** | **170,118** | **138,871** | **NMF** | **70.9%** |
| Income tax expense | (40,394) | (17,131) | (12,665) | NMF | NMF |
| **Profit for the period** | **250,392** | **152,987** | **126,206** | **98.4%** | **63.7%** |
| | | | | | |
| **ROE** | **31.0%** | **20.3%** | **19.5%** | **11.5 pp** | **10.7 pp** |
| **ROE before expected credit loss allowances** | **26.0%** | **22.4%** | **21.3%** | **4.7 pp** | **3.6 pp** |
| **ROA** | **4.4%** | **2.7%** | **2.6%** | **1.8 pp** | **1.7 pp** |

## Funding and Liquidity

As of 30 June 2021, total liquidity coverage ratio, as defined by the NBG, was 127.1%, above the 100% limit. The decrease on a QoQ basis in the foreign currency liquidity coverage ratio was attributable to the release of a short-term placement from a single CIB client, while the decline in the GEL liquidity coverage ratio was mainly related to a repayment of a wholesale funding, as well as an increase in the loan book.

As of 30 June 2021, NSFR stood at 130.6%, compared to the regulatory limit of 100%.

| | 30-Jun-21 | 31-Mar-21 | *Change QoQ* |
|---|---|---|---|
| *Minimum net stable funding ratio, as defined by the NBG* | *100.0%* | *100.0%* | *0.0 pp* |
| Net stable funding ratio as defined by the NBG | 130.6% | 131.4% | -0.8 pp |
| | | | |
| Net loans to deposits + IFI funding | 102.8% | 92.2% | 10.6 pp |
| Leverage (Times) | 6.6x | 7.6x | -1.0x |
| | | | |
| *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* | *75%** | *n/a* | *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 | 127.1% | 136.7% | -9.6 pp |
| LCR in GEL, as defined by the NBG | 122.9% | 140.8% | -17.9 pp |
| LCR in FC, as defined by the NBG | 129.2% | 135.5% | -6.3 pp |

** In May 2021, NBG restored the NBG GEL LCR limit, which was temporarily removed for one year*

## Regulatory Capital

As of 30 June 2021, our capital adequacy ratios were comfortably above the minimum regulatory requirements including the restored buffers.

By 31 July 2021, we have restored all temporarily released capital buffers. This has lifted any restrictions on capital distribution.

Our strong capital generation was driven by our exceptional operating income as well as strong performance on the asset quality side. The growth was further supported currency local currency appreciation QoQ.

| *In thousands of GEL* | 30-Jun-21 | 31-Mar-21 | *Change QoQ* |
|---|---|---|---|
| CET 1 Capital | 2,382,595 | 2,059,599 | 15.7% |
| Tier 1 Capital | 2,837,805 | 2,550,144 | 11.3% |
| Total Capital | 3,573,282 | 3,327,134 | 7.4% |
| Total Risk-weighted Exposures | 18,275,845 | 18,921,231 | -3.4% |
| | | | |
| *Minimum CET 1 ratio* | *11.2%** | *7.8%* | *3.4 pp* |
| CET 1 Capital adequacy ratio | 13.0% | 10.9% | 2.1 pp |
| | | | |
| *Minimum Tier 1 ratio* | *13.5%** | *9.7%* | *3.8 pp* |
| Tier 1 Capital adequacy ratio | 15.5% | 13.5% | 2.0 pp |
| | | | |
| *Minimum total capital adequacy ratio* | *17.8%** | *13.7%* | *4.1 pp* |
| Total Capital adequacy ratio | 19.6% | 17.6% | 2.0 pp |

** Minimum requirements with restored buffers*

## Loan Portfolio

As of 30 June 2021, the gross loan portfolio reached GEL 15,274.9 million, down by 0.4% QoQ, or up by 3.7% on a constant currency basis.

The proportion of gross loans denominated in foreign currency decreased by 2.9pp QoQ and accounted for 56.3% of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency decreased by 1.1pp QoQ and stood at 58.0%.

As of 30 June 2021, our market share in total loans stood at 38.1%, down by 0.4pp QoQ. Our loan market share in legal entities was 38.0%, remaining the same QoQ, and our loan market share in individuals stood at 38.3%, down by 0.7pp QoQ.

| *In thousands of GEL* | 30-Jun-21 | 31-Mar-21 | *Change QoQ* |
|---|---|---|---|
| **Loans and advances to customers** | | | |
| **Retail** | **5,688,519** | **5,761,488** | **-1.3%** |
| *Retail loans GEL* | *3,100,158* | *2,980,635* | *4.0%* |
| *Retail loans FC* | *2,588,361* | *2,780,853* | *-6.9%* |
| **CIB** | **5,851,634** | **5,939,056** | **-1.5%** |
| *CIB loans GEL* | *1,746,149* | *1,629,821* | *7.1%* |
| *CIB loans FC* | *4,105,485* | *4,309,235* | *-4.7%* |
| **MSME** | **3,734,773** | **3,631,665** | **2.8%** |
| *MSME loans GEL* | *1,828,264* | *1,647,846* | *10.9%* |
| *MSME loans FC* | *1,906,509* | *1,983,819* | *-3.9%* |
| **Total loans and advances to customers** | **15,274,926** | **15,332,209** | **-0.4%** |

| | 2Q'21 | 1Q'21 | 2Q'20 | *Change YoY* | *Change QoQ* |
|---|---|---|---|---|---|
| **Loan yields** | **10.2%** | **9.8%** | **9.7%** | **0.5 pp** | **0.4 pp** |
| *Loan yields GEL* | *15.1%* | *14.6%* | *15.0%* | *0.1 pp* | *0.5 pp* |
| *Loan yields FC* | *6.7%* | *6.6%* | *6.5%* | *0.2 pp* | *0.1 pp* |
| **Retail Loan Yields** | **11.4%** | **11.1%** | **10.7%** | **0.7 pp** | **0.3 pp** |
| *Retail loan yields GEL* | *15.8%* | *15.7%* | *15.8%* | *0.0 pp* | *0.1 pp* |
| *Retail loan yields FC* | *6.4%* | *6.2%* | *6.1%* | *0.3 pp* | *0.2 pp* |
| **CIB Loan Yields** | **9.0%** | **8.7%** | **8.5%** | **0.5 pp** | **0.3 pp** |
| *CIB loan yields GEL* | *13.8%* | *12.8%* | *13.3%* | *0.5 pp* | *1.0 pp* |
| *CIB loan yields FC* | *7.1%* | *7.1%* | *6.9%* | *0.2 pp* | *0.0 pp* |
| **MSME Loan Yields** | **10.3%** | **9.8%** | **10.2%** | **0.1 pp** | **0.5 pp** |
| *MSME loan yields GEL* | *15.1%* | *14.5%* | *15.2%* | *-0.1 pp* | *0.6 pp* |
| *MSME loan yields FC* | *6.1%* | *5.9%* | *6.1%* | *0.0 pp* | *0.2 pp* |

## Loan Portfolio Quality

In 2Q, NPL improved by 1.4pp across all segments, driven by resumed repayments from restructured retail and MSME customers, as well as by the repayment of a single large CIB borrower.

The total Par 30 ratio improved by 0.3pp and amounted to 2.2%. The decrease was mainly driven by the CIB segment due to two large borrowers (including the one mentioned above). The Retail and MSME ratios stayed stable compared to previous quarter.

Our NPLs had a 91% provision coverage as of 30 June 2021 and an additional 79% collateral coverage. Only 13% of NPLs were unsecured loans with strong provision coverage of 294%.

| **Par 30** | **30-Jun-21** | **31-Mar-21** | ***Change QoQ*** |
|---|---|---|---|
| Retail | 3.0% | 3.0% | 0.0% |
| CIB | 0.3% | 1.2% | -0.9% |
| MSME | 3.9% | 3.8% | 0.1% |
| **Total Loans** | **2.2%** | **2.5%** | **-0.3%** |

| **Non-performing Loans** | **30-Jun-21** | **31-Mar-21** | ***Change QoQ*** |
|---|---|---|---|
| Retail | 4.0% | 6.0% | -2.0% |
| CIB | 1.6% | 2.2% | -0.6% |
| MSME | 5.4% | 7.0% | -1.6% |
| **Total Loans** | **3.4%** | **4.8%** | **-1.4%** |

| **NPL Coverage**[18] | **30-Jun-21** | | **31-Mar-21** | |
|---|---|---|---|---|
| | Provision Coverage | Total Coverage | Provision Coverage | Total Coverage |
| Retail | 117.9% | 189.6% | 93.8% | 161.0% |
| CIB | 82.9% | 157.0% | 81.9% | 150.5% |
| MSME | 64.8% | 152.7% | 63.1% | 147.5% |
| **Total** | **91.3%** | **169.6%** | **81.0%** | **154.4%** |

| **NPL Coverage (30 June 2021)**[19] | Collateral coverage | Provision coverage | Total coverage | Share in NPL portfolio |
|---|---|---|---|---|
| Secured[20] | 90% | 62% | 152% | 87% |
| Unsecured | - | 294% | 294% | 13% |
| **Total** | **79%** | **91%** | **170%** | **100%** |

## Cost of risk

The recoveries of credit loss allowances translated into -1.3% cost of risk for 2Q 2021. As mentioned above, the recoveries were driven by improved macro outlook on the back of the better than expected economic performance, as well as repayment from a single large CIB borrower.

| **Cost of risk** | **2Q'21** | **1Q'21** | **2Q'20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| Retail | -0.1% | 0.8% | -0.7% | 0.6% | -0.9% |
| CIB | -2.0% | -0.2% | 0.3% | -2.3% | -1.8% |
| MSME | -2.0% | 1.0% | 1.0% | -3.0% | -3.0% |
| **Total** | **-1.3%** | **0.5%** | **0.0%** | **-1.3%** | **-1.8%** |

[18] In 1Q 2021, we updated the calculation methodology of NPL collateral coverage; please refer to annex 5 for more details.
[19] In 1Q 2021, we updated the calculation methodology of NPL collateral coverage; please refer to annex 5 for more details.
[20] Secured loans are those that are secured with cash, gold, real estate and other PPE.

## Deposit Portfolio

The total deposits portfolio decreased by 9.6% QoQ, or 5.0% on a constant currency basis and amounted to GEL 12,870.4 million.

The decrease on a QoQ basis was attributable to a decline of a Ministry of Finance deposits, as well as release of short-term placement from a single CIB client. Without Minstry of Finance deposits, our deposits portfolio would have been broadly stable on constant currency basis. The proportion of deposits denominated in a foreign currency decreased by 2.5pp QoQ and accounted for 65.7% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency decreased by 0.8pp QoQ and stood at 67.4%.

As of 30 June 2021, our market share in deposits amounted to 37.8%, down by 2.0pp QoQ, while our market share in deposits to legal entities stood at 35.7%, down by 4.1pp QoQ. Our market share in deposits to individuals stood at 39.6%, down by 0.2pp QoQ.

| *In thousands of GEL* | **30-Jun-21** | **31-Mar-21** | ***Change QoQ*** |
|---|---|---|---|
| **Customer Accounts** | | | |
| **Retail** | **5,287,787** | **5,369,851** | **-1.5%** |
| *Retail deposits GEL* | *1,269,466* | *1,266,543* | *0.2%* |
| *Retail deposits FC* | *4,018,321* | *4,103,308* | *-2.1%* |
| **CIB** | **5,939,188** | **6,728,126** | **-11.7%** |
| *CIB deposits GEL* | *2,218,972* | *1,803,883* | *23.0%* |
| *CIB deposits FC* | *3,720,216* | *4,924,243* | *-24.5%* |
| **MSME** | **1,397,516** | **1,299,482** | **7.5%** |
| *MSME deposits GEL* | *675,932* | *619,717* | *9.1%* |
| *MSME deposits FC* | *721,584* | *679,765* | *6.2%* |
| **Total Customer Accounts*** | **12,870,418** | **14,239,837** | **-9.6%** |

** Total deposit portfolio includes Ministry of Finacne deposits in the amount of, GEL 843 mln and GEL 245 mln as of 31 March 2021 and 30 June 2021, respectively*

| | **2Q'21** | **1Q'21** | **2Q'20** | ***Change YoY*** | ***Change QoQ*** |
|---|---|---|---|---|---|
| **Deposit rates** | **3.4%** | **3.5%** | **3.4%** | **0.0 pp** | **-0.1 pp** |
| *Deposit rates GEL* | *6.6%* | *6.6%* | *6.4%* | *0.2 pp* | *0.0 pp* |
| *Deposit rates FC* | *1.7%* | *1.9%* | *1.9%* | *-0.2%* | *-0.2 pp* |
| **Retail Deposit Yields** | **2.2%** | **2.5%** | **2.7%** | **-0.5 pp** | **-0.3 pp** |
| *Retail deposit rates GEL* | *4.7%* | *5.0%* | *5.7%* | *-1.0 pp* | *-0.3 pp* |
| *Retail deposit rates FC* | *1.5%* | *1.7%* | *1.7%* | *-0.2 pp* | *-0.2 pp* |
| **CIB Deposit Yields** | **4.0%** | **3.9%** | **4.5%** | **-0.5 pp** | **0.1 pp** |
| *CIB deposit rates GEL* | *8.3%* | *7.9%* | *8.5%* | *-0.2 pp* | *0.4 pp* |
| *CIB deposit rates FC* | *2.1%* | *2.2%* | *2.5%* | *-0.4 pp* | *-0.1 pp* |
| **MSME Deposit Yields** | **0.9%** | **0.8%** | **0.9%** | **0.0 pp** | **0.1 pp** |
| *MSME deposit rates GEL* | *1.5%* | *1.5%* | *1.7%* | *-0.2 pp* | *0.0 pp* |
| *MSME deposit rates FC* | *0.3%* | *0.2%* | *0.4%* | *-0.1 pp* | *0.1 pp* |

## Segment definition and PL

### Business Segments

The segment definitions are as follows:

- Corporate and Investment Banking (CIB) – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the MSME segment on a discretionary basis. In addition, CIB includes Wealth Management private banking services to high-net-worth individuals with the threshold of US$ 250,000 on assets under management (AUM), as well as on discretionary basis;
- Retail – non-business individual customers;
- MSME – business customers who are not included in the CIB segment; or individual customers of the fully digital bank, Space.
- 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'21 | Retail | MSME | CIB | Corp.Centre | Total |
|---|---|---|---|---|---|
| Interest income | 163,057 | 95,892 | 139,272 | 60,351 | 458,572 |
| Interest expense | (30,689) | (3,058) | (61,772) | (127,937) | (223,456) |
| Net gains from currency swaps | - | - | - | 7,651 | 7,651 |
| *Net transfer pricing* | (36,770) | (36,678) | 12,728 | 60,720 | - |
| **Net interest income** | **95,598** | **56,156** | **90,228** | **785** | **242,767** |
| Fee and commission income | 58,575 | 13,434 | 25,149 | 7,887 | 105,045 |
| Fee and commission expense | (11,920) | (8,180) | (19,509) | (2,428) | (42,037) |
| **Net fee and commission income** | **46,655** | **5,254** | **5,640** | **5,459** | **63,008** |
| Net insurance premium earned after claims and acquisition costs | - | - | - | 5,470 | 5,470 |
| Net gains from derivatives, foreign currency operations and translation | 8,600 | 6,999 | 14,254 | 1,835 | 31,688 |
| Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income | - | - | 515 | 4,138 | 4,653 |
| Other operating income | 2,181 | 668 | 1,117 | 28,525 | 32,491 |
| Share of profit of associates | - | - | - | 210 | 210 |
| **Other operating non-interest income and insurance profit** | **10,781** | **7,667** | **15,886** | **40,178** | **74,512** |
| Credit loss allowance for loans to customers | 1,661 | 18,365 | 30,086 | - | 50,112 |
| Credit loss allowance for performance guarantees and credit related commitments | 70 | (158) | 1,372 | - | 1,284 |
| Credit loss allowance for investments in finance lease | - | - | - | (1,204) | (1,204) |
| Credit loss allowance for other financial assets | (3,309) | - | (1,143) | (1,237) | (5,689) |
| Credit loss allowance for financial assets measured at fair value through other comprehensive income | - | - | 840 | 408 | 1,248 |
| Other non-financial assets impairment | 95 | 23 | 7 | (585) | (460) |
| **Profit/(loss) before G&A expenses and income taxes** | **151,551** | **87,307** | **142,916** | **43,804** | **425,578** |
| **Losses from modifications of financial instruments** | **(112)** | **(63)** | **71** | **-** | **(104)** |
| Staff costs | (34,266) | (14,170) | (11,676) | (17,645) | (77,757) |
| Depreciation and amortization | (12,355) | (3,085) | (1,303) | (2,594) | (19,337) |
| Provision for liabilities and charges | - | - | - | (54) | (54) |
| Administrative and other operating expenses | (17,865) | (7,256) | (3,470) | (8,949) | (37,540) |
| **Operating expenses** | **(64,486)** | **(24,511)** | **(16,449)** | **(29,242)** | **(134,688)** |
| **Profit before tax** | **86,953** | **62,733** | **126,538** | **14,562** | **290,786** |
| Income tax expense | (10,368) | (8,784) | (16,307) | (4,935) | (40,394) |
| **Profit** | **76,585** | **53,949** | **110,231** | **9,627** | **250,392** |

## Consolidated Financial Statements of TBC Bank Group PLC

**Consolidated Balance sheet**

| *In thousands of GEL* | **Jun-21** | **Mar-21** |
|---|---|---|
| Cash and cash equivalents | 1,414,414 | 2,425,584 |
| Due from other banks | 59,314 | 54,189 |
| Mandatory cash balances with National Bank of Georgia | 2,117,157 | 2,364,760 |
| Loans and advances to customers | 14,796,968 | 14,742,344 |
| Investment securities measured at fair value through other comprehensive income | 2,022,385 | 2,284,697 |
| Bonds carried at amortized cost* | 10,069 | 17,748 |
| Investments in finance leases | 245,261 | 272,090 |
| Investment properties | 33,407 | 65,605 |
| Current income tax prepayment | 14,966 | 62,022 |
| Deferred income tax asset | 6,747 | 1,453 |
| Other financial assets[21] | 287,761 | 292,410 |
| Other assets | 311,218 | 265,299 |
| Premises and equipment | 371,909 | 377,273 |
| Right of use assets | 51,160 | 54,535 |
| Intangible assets | 284,555 | 272,597 |
| Goodwill | 59,964 | 59,964 |
| Investments in associates | 4,286 | 4,476 |
| **TOTAL ASSETS** | **22,091,541** | **23,617,046** |
| **LIABILITIES** | | |
| Due to credit institutions | 3,482,830 | 3,612,067 |
| Customer accounts | 12,870,418 | 14,239,837 |
| Lease liabilities | 53,755 | 60,934 |
| Other financial liabilities[21] | 124,308 | 153,606 |
| Current income tax liability | 653 | 697 |
| Debt Securities in issue | 1,445,614 | 1,583,929 |
| Deferred income tax liability | 18,457 | 21,865 |
| Provisions for liabilities and charges | 21,435 | 22,526 |
| Other liabilities | 101,265 | 87,888 |
| Subordinated debt | 635,981 | 707,962 |
| **TOTAL LIABILITIES** | **18,754,716** | **20,491,311** |
| **EQUITY** | | |
| Share capital | 1,682 | 1,682 |
| Shares held by trust | (25,489) | (25,494) |
| Share premium | 848,459 | 848,459 |
| Retained earnings | 2,680,951 | 2,432,872 |
| Group re-organisation reserve | (162,167) | (162,167) |
| Share based payment reserve | (15,348) | (19,288) |
| Fair value reserve | 170 | 36,929 |
| Cumulative currency translation reserve | (5,199) | 759 |
| **Net assets attributable to owners** | **3,323,059** | **3,113,752** |
| **Non-controlling interest** | 13,766 | 11,983 |
| **TOTAL EQUITY** | **3,336,825** | **3,125,735** |
| **TOTAL LIABILITIES AND EQUITY** | **22,091,541** | **23,617,046** |

** In 2020, the Group changed its business model in relation to certain portfolio of bonds carried at amortized cost (Ministry of Finance Treasury Bills). The respective reclassifications have been applied prospectively from 1 January 2021, as required by IFRS. As a result of reclassification, Bonds carried at amortized cost in the amount of GEL 1,059,946 thousand has been transferred to Investment securities measured at fair value through other comprehensive income with the fair value of GEL 1,086,008 thousand. The difference has been recognized in other comprehensive income as required by IFRS*

[21] Other financial assets and liabilities do not contain offset amounts of omnibus accounts for TBC Capital (nominee accounts, where TBC Capital acts as a fiduciary on client's behalf).

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

| *In thousands of GEL* | 2Q'21 | 1Q'21 | 2Q'20 |
|---|---|---|---|
| Interest income | 458,572 | 440,613 | 393,114 |
| Interest expense | (223,456) | (220,980) | (212,714) |
| Net gains from currency swaps | 7,651 | 5,498 | 3,965 |
| **Net interest income** | **242,767** | **225,131** | **184,365** |
| Fee and commission income | 105,045 | 81,108 | 65,038 |
| Fee and commission expense | (42,037) | (35,815) | (25,521) |
| **Net fee and commission income** | **63,008** | **45,293** | **39,517** |
| Net insurance premiums earned | 16,146 | 14,143 | 13,385 |
| Net insurance claims incurred and agents' commissions | (10,676) | (9,740) | (7,904) |
| **Net insurance premium earned after claims and acquisition costs** | **5,470** | **4,403** | **5,481** |
| Net gains from derivatives, foreign currency operations and translation | 31,688 | 28,496 | 19,124 |
| Gains less losses from disposal of investment securities measured at fair value through other comprehensive income | 4,653 | 2,388 | (1,480) |
| Other operating income | 32,491 | 4,992 | 3,083 |
| Share of profit of associates | 210 | 386 | (47) |
| **Other operating non-interest income** | **69,042** | **36,262** | **20,680** |
| Credit loss allowance for loans to customers | 50,112 | (17,549) | (8,191) |
| Credit loss allowance for investments in finance lease | (1,204) | (1,311) | (3,408) |
| Credit loss allowance for performance guarantees and credit related commitments | 1,284 | 646 | 1,227 |
| Credit loss allowance for other financial assets | (5,689) | 363 | (988) |
| Credit loss allowance for financial assets measured at fair value through other comprehensive income | 1,248 | 594 | 46 |
| Other non-financial assets impairment | (460) | 13 | (1,272) |
| **Operating profit after expected credit losses** | **425,578** | **293,845** | **237,457** |
| **Losses from modifications of financial instruments** | **(104)** | **(1,487)** | **(3,527)** |
| Staff costs | (77,757) | (70,314) | (57,204) |
| Depreciation and amortization | (19,337) | (17,364) | (16,427) |
| (Provision for)/ recovery of liabilities and charges | (54) | 45 | (59) |
| Administrative and other operating expenses | (37,540) | (34,607) | (21,369) |
| **Operating expenses** | **(134,688)** | **(122,240)** | **(95,059)** |
| **Profit before tax** | **290,786** | **170,118** | **138,871** |
| Income tax expense | (40,394) | (17,131) | (12,665) |
| **Profit** | **250,392** | **152,987** | **126,206** |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Movement in fair value reserve | (36,758) | 25,772 | (38) |
| Exchange differences on translation to presentation currency | (5,976) | 2,903 | (2,002) |
| **Other comprehensive income for the period** | **(42,734)** | **28,675** | **(2,040)** |
| **Total comprehensive income for the period** | **207,658** | **181,662** | **124,166** |
| **Profit attributable to:** | | | |
| - Shareholders of TBCG | 247,945 | 151,224 | 125,100 |
| - Non-controlling interest | 2,447 | 1,763 | 1,106 |
| **Profit** | **250,392** | **152,987** | **126,206** |
| **Total comprehensive income is attributable to:** | | | |
| - Shareholders of TBCG | 205,195 | 179,923 | 123,060 |
| - Non-controlling interest | 2,463 | 1,739 | 1,106 |
| **Total comprehensive income for the period** | **207,658** | **181,662** | **124,166** |

**Consolidated Statement of Cash Flows**

| *In thousands of GEL* | **30-Jun-2021** | **31-Mar-2021** |
|---|---|---|
| **Cash flows from (used in) operating activities** | | |
| Interest received | 906,444 | 442,636 |
| Interest received on currency swaps | 13,149 | 5,498 |
| Interest paid | (452,751) | (183,320) |
| Fees and commissions received | 170,658 | 74,044 |
| Fees and commissions paid | (78,793) | (36,510) |
| Insurance and reinsurance received | 43,358 | 20,559 |
| Insurance claims paid | (16,239) | (7,270) |
| Income received from trading in foreign currencies | 32,659 | (33,046) |
| Other operating income received | 28,880 | 14,282 |
| Staff costs paid | (134,594) | (65,416) |
| Administrative and other operating expenses paid | (79,430) | (37,873) |
| Income tax paid | (4,446) | (1,199) |
| ***Cash flows from operating activities before changes in operating assets and liabilities*** | ***428,895*** | ***192,385*** |
| **Net change in operating assets** | | |
| Due from other banks and mandatory cash balances with the National Bank of Georgia | 23,326 | 100,916 |
| Loans and advances to customers | (711,980) | (23,866) |
| Net investments in lease | 24,158 | 6,083 |
| Other financial assets | (38,835) | (89,537) |
| Other assets | 14,151 | 18,454 |
| **Net change in operating liabilities** | | |
| Due to credit institutions | 11,940 | 21,347 |
| Customer accounts | 667,190 | 1,360,791 |
| Other financial liabilities | (137,291) | (104,089) |
| Other liabilities and provision for liabilities and charges | 16,659 | 6,595 |
| ***Net cash flows (used in)/from operating activities*** | ***298,213*** | ***1,489,079*** |
| **Cash flows from (used in) investing activities** | | |
| Acquisition of investment securities measured at fair value through other comprehensive income | (196,871) | (28,972) |
| Proceeds from disposal of investment securities measured at fair value through other comprehensive income | - | 275,679 |
| Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income | 757,583 | 92,438 |
| Proceeds from redemption of bonds carried at amortised cost | 19,633 | - |
| Acquisition of premises, equipment and intangible assets | (91,993) | (49,264) |
| Proceeds from disposal of premises, equipment and intangible assets | 6,334 | 351 |
| Proceeds from disposal of investment property | 20,210 | 3,430 |
| ***Net cash used in investing activities*** | ***514,896*** | ***293,662*** |
| **Cash flows from (used in) financing activities** | | |
| Proceeds from other borrowed funds | 1,757,879 | 1,190,364 |
| Redemption of other borrowed funds | (2,736,476) | (2,160,119) |
| Repayment of principal of lease liabilities | (5,591) | (3,950) |
| Redemption of subordinated debt | (12,562) | |
| Dividends paid | (1,741) | (1,354) |
| ***Net cash flows from financing activities*** | ***(998,491)*** | ***(975,059)*** |
| ***Effect of exchange rate changes on cash and cash equivalents*** | ***(35,609)*** | ***(17,502)*** |
| ***Net (decrease)/ increase in cash and cash equivalents*** | ***(220,991)*** | ***790,180*** |
| ***Cash and cash equivalents at the beginning of the year*** | ***1,635,405*** | ***1,635,404*** |
| ***Cash and cash equivalents at the end of the year*** | ***1,414,414*** | ***2,425,584*** |

## 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'21 | 1Q'21 | 2Q'20 |
|---|---|---|---|
| **Profitability ratios:** | | | |
| ROE[1] | 31.0% | 20.3% | 19.5% |
| ROA[2] | 4.4% | 2.7% | 2.6% |
| ROE before expected credit loss allowances[3] | 26.0% | 22.4% | 21.3% |
| Cost to income[4] | 35.4% | 39.3% | 38.0% |
| NIM[5] | 5.0% | 4.7% | 4.3% |
| Loan yields[6] | 10.2% | 9.8% | 9.7% |
| Deposit rates[7] | 3.4% | 3.5% | 3.4% |
| Yields on interest earning assets[8] | 9.5% | 9.2% | 9.1% |
| Cost of funding[9] | 4.6% | 4.5% | 5.0% |
| Spread[10] | 4.9% | 4.7% | 4.1% |
| **Asset quality & portfolio concentration:** | | | |
| Cost of risk[11] | -1.3% | 0.5% | 0.0% |
| PAR 90 to Gross Loans[12] | 1.2% | 1.6% | 1.0% |
| NPLs to Gross Loans[13] | 3.4% | 4.8% | 2.9% |
| NPL provision coverage[14] | 91.3% | 81.0% | 134.7% |
| Total NPL coverage[15] | 169.6% | 154.4% | 208.0% |
| Credit loss level to Gross Loans[16] | 3.1% | 3.8% | 3.9% |
| Related Party Loans to Gross Loans[17] | 0.1% | 0.0% | 0.1% |
| Top 10 Borrowers to Total Portfolio[18] | 7.8% | 8.2% | 8.2% |
| Top 20 Borrowers to Total Portfolio[19] | 11.9% | 12.4% | 12.3% |
| **Capital & liquidity positions:** | | | |
| Net Loans to Deposits plus IFI* Funding[20] | 102.8% | 92.2% | 105.3% |
| Net Stable Funding Ratio[21] | 130.6% | 131.4% | 127.5% |
| Liquidity Coverage Ratio[22] | 127.1% | 136.7% | 124.8% |
| Leverage[23] | 6.6x | 7.6x | 7.5x |
| CET 1 CAR (Basel III)[24] | 13.0% | 10.9% | 10.0% |
| Regulatory Tier 1 CAR (Basel III)[25] | 15.5% | 13.5% | 12.7% |
| Regulatory Total 1 CAR (Basel III)[26] | 19.6% | 17.6% | 17.2% |

* *International Financial Institutions*

## Ratio definitions

1. Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period; annualised where applicable.
2. Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
3. Return on average total equity (ROE) before expected credit loss allowances equals net income attributable to owners excluding all credit loss allowance with respective tax effects, but after net modification losses divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period.
4. Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities (excluding CIB shares), net investment in finance lease, net loans, and amounts due from credit institutions.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
8. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets; annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities; annualised where applicable.
10. Spread equals difference between yields on interest earning assets (including but not limited to yields on loans, securities and due from banks) and cost of funding (including but not limited to cost of deposits, cost on borrowings and due to banks).
11. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
12. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
13. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
14. NPL provision coverage equals total credit loss allowance for loans to customers divided by the NPL loans.
15. Total NPL coverage equals total credit loss allowance plus the minimum of collateral amount of the respective NPL loan (after applying haircuts in the range of 0%-50% for cash, gold, real estate and PPE) and its gross loan exposure divided by the gross exposure of total 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. 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. 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. 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 US$/GEL exchange rate of 3.4118 as of 31 March 2021. As of 30 June 2021 the US$/GEL exchange rate equaled 3.1603. For P&L items growth calculations without currency effect, we used the average US$/GEL exchange rate for the following periods: 2Q 2021 of 3.3271, 1Q 2021 of 3.3142, 2Q 2020 of 3.1379.

## Unaudited Consolidated Financial Results Overview for 1H 2021

*This statement provides a summary of the unaudited business and financial trends for 1H 2021 for TBC Bank Group plc and its subsidiaries. The half year financial information and trends are unaudited.*

*TBC Bank Group PLC's financial results has been prepared in accordance with UK-adopted International Accounting Standard (IAS) 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority (FCA).*

## Financial Highlights

**Income Statement Highlights**

| *in thousands of GEL* | 1H'21 | 1H'20 | *Change YoY* |
|---|---|---|---|
| Net interest income | 467,898 | 392,324 | *19.3%* |
| Net fee and commission income | 108,301 | 83,069 | *30.4%* |
| Other operating non-interest income[22] | 115,177 | 64,905 | *77.5%* |
| Credit loss allowance | 28,047 | (259,676) | *NMF* |
| **Operating profit after expected credit losses** | **719,423** | **280,622** | ***NMF*** |
| Losses from modifications of financial instrument | (1,591) | (34,170) | *NMF* |
| Operating expenses | (256,928) | (201,535) | *27.5%* |
| **Profit before tax** | **460,904** | **44,917** | ***NMF*** |
| Income tax expense | (57,525) | 24,283 | *NMF* |
| **Profit for the period** | **403,379** | **69,200** | ***NMF*** |

**Balance Sheet and Capital Highlights**

| *in thousands of GEL* | Jun-21 | Jun-20 | *Change YoY* |
|---|---|---|---|
| Total Assets | 22,091,541 | 19,813,429 | *11.5%* |
| Gross Loans | 15,274,926 | 13,635,392 | *12.0%* |
| Customer Deposits | 12,870,418 | 10,420,330 | *23.5%* |
| Total Equity | 3,336,825 | 2,653,405 | *25.8%* |
| Regulatory Common Equity Tier I Capital (Basel III) | 2,382,595 | 1,631,006 | *46.1%* |
| Regulatory Tier I Capital (Basel III) | 2,837,805 | 2,068,052 | *37.2%* |
| Regulatory Total Capital (Basel III) | 3,573,282 | 2,787,136 | *28.2%* |
| Regulatory Risk Weighted Assets (Basel III) | 18,275,845 | 16,249,475 | *12.5%* |

| **Key Ratios** | 1H'21 | 1H'20 | *Change YoY* |
|---|---|---|---|
| ROE | 25.9% | 5.2% | *20.7 pp* |
| ROA | 3.6% | 0.7% | *2.9 pp* |
| NIM | 4.8% | 4.7% | *0.1 pp* |
| Cost to income | 37.2% | 37.3% | *-0.1 pp* |
| Standalone cost to income of the Bank[23] | 30.6% | 32.0% | *-1.4 pp* |
| Cost of risk | -0.4% | 2.1% | *-2.5 pp* |
| NPL to gross loans | 3.4% | 2.9% | *0.5 pp* |
| NPL provision coverage ratio | 91.3% | 134.7% | *-43.4 pp* |
| Total NPL coverage ratio | 169.6% | 208.0% | *-38.4 pp* |
| CET 1 CAR (Basel III) | 13.0% | 10.0% | *3.0 pp* |
| Regulatory Tier 1 CAR (Basel III) | 15.5% | 12.7% | *2.8 pp* |
| Regulatory Total CAR (Basel III) | 19.6% | 17.2% | *2.4 pp* |
| Leverage (Times) | 6.6x | 7.5x | *-0.9x* |

[22] Other operating non-interest income includes net insurance premium earned after claims and acquisition costs.
[23] For the ratio calculation, all relevant group recurring costs are allocated to the Bank.

## Net Interest Income

In 1H 2021, net interest income amounted to GEL 467.9 million, up by 19.3% YoY, whereby interest income increased by 14.1% and interest expense increased by 8.9%.

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 1,639.5 million, or 12.0%. Over the same period, loan yield remained broadly stable.

Our interest expense increased by 8.9%, which was primarily related to an increase in interest expense from deposits due to an increase in the respective portfolio of GEL 2,450.1 million. Over the same period, the cost of deposits remained broadly stable YoY, as the increase in GEL cost of deposits was more than offset by a decrease in FC cost of deposits.

In 1H 2021, our NIM stood at 4.8%, up by 0.1pp YoY.

| *In thousands of GEL* | **1H'21** | **1H'20** | ***Change YoY*** |
|---|---|---|---|
| Interest income | 899,185 | 787,893 | 14.1% |
| Interest expense | (444,436) | (408,091) | 8.9% |
| Net gains from currency swaps | 13,149 | 12,522 | 5.0% |
| **Net interest income** | **467,898** | **392,324** | **19.3%** |
| | | | |
| **NIM** | **4.8%** | **4.7%** | **0.1 pp** |

## Net fee and commission income

In 1H 2021, net fee and commission income totalled GEL 108.3 million, up by 30.4% YoY. The increase was spread across all major sub-categories due to the revival of business activities, further supported by various initiatives undertaken on the payments side, as well as the contribution from our fast-growing Uzbek payments subsidiary, Payme.

| *In thousands of GEL* | **1H'21** | **1H'20** | ***Change YoY*** |
|---|---|---|---|
| **Net fee and commission income** | | | |
| Card operations | 32,951 | 23,502 | 40.2% |
| Settlement transactions | 53,002 | 38,012 | 39.4% |
| Guarantees issued and letters of credit | 18,963 | 17,919 | 5.8% |
| Other | 3,385 | 3,636 | -6.9% |
| **Total net fee and commission income** | **108,301** | **83,069** | **30.4%** |

## Other Non-Interest Income

Total other non-interest income increased by 77.5% YoY and amounted to GEL 115.2 million in 1H 2021. The YoY increase was driven by growth in net income from foreign currency operations and growth in other operating income. The former increase was driven by an increase in the scale of FX transactions, while the later increase was driven by a gain from the disposal of one of our investment properties, in the amount of GEL 26.3 million.

| *In thousands of GEL* | **1H'21** | **1H'20** | ***Change YoY*** |
|---|---|---|---|
| **Other non-interest income** | | | |
| Net income from foreign currency operations | 59,880 | 47,779 | 25.3% |
| Net insurance premium earned after claims and acquisition costs[24] | 9,873 | 10,281 | -4.0% |
| Other operating income | 45,424 | 6,845 | NMF |
| **Total other non-interest income** | **115,177** | **64,905** | **77.5%** |

## Credit Loss Allowance

Total credit loss allowance in 1H 2021 amounted to GEL 28.0 million. This significant decrease was driven by recoveries in 2Q across all segments, as explained above, and by a high base in 1H 2020 due to creation of COVID-19 related provisions.

| *In thousands of GEL* | **1H'21** | **1H'20** | ***Change YoY*** |
|---|---|---|---|
| Credit loss allowance for loans | 32,563 | (249,216) | NMF |
| Credit loss allowance for other transactions | (4,516) | (10,460) | -56.8% |
| **Total credit loss allowance** | **28,047** | **(259,676)** | **NMF** |
| **Operating income after credit loss allowance** | **719,423** | **280,622** | **NMF** |
| | | | |
| **Cost of risk** | **-0.4%** | **2.1%** | **-2.5 pp** |

*NMF – no meaningful figures*

[24] Net insurance premium earned after claims and acquisition costs can be reconciled to the standalone net insurance profit (as shown in Annex 3) 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.

## Operating Expenses

In 1H 2021, our total operating expenses expanded by 27.5% YoY.

YoY growth in staff costs was mainly attributable to the low base of share-based payments in 1H 2020, as a result of reversal of management's bonuses, increase in staff bonuses related to revival of business activities in 1H 2021, as well as the expansion of our Uzbekistan operations. The increase in administrative expenses were mainly impacted by cost optimizations in 1H 2020 related to COVID-19 (including GEL 4.2 mln from renegotiated rent expenses per IFRS 16).

The cost to income ratio stood at 37.2%, down by 0.1 pp YoY, while our standalone cost to income was 30.6%, down by 1.4pp over the same period.

| *In thousands of GEL* | 1H'21 | 1H'20 | *Change YoY* |
|---|---|---|---|
| **Operating expenses** | | | |
| Staff costs | (148,071) | (114,006) | 29.9% |
| Provisions for liabilities and charges | (9) | 77 | NMF |
| Depreciation and amortization | (36,701) | (32,215) | 13.9% |
| Administrative & other operating expenses | (72,147) | (55,391) | 30.3% |
| **Total operating expenses** | **(256,928)** | **(201,535)** | **27.5%** |
| | | | |
| **Cost to income** | **37.2%** | **37.3%** | **-0.1 pp** |
| **Standalone Cost to income*** | **30.6%** | **32.0%** | **-1.4 pp** |

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

## Net Income

In 1H 2021, our solid profitability was related to strong performance in operating profit across all categories, as well as recoveries in credit loss allowances across all segments.

As a result, our ROE stood at 25.9%, ROE before expected credit loss allowances stood at 24.3% and ROA stood at 3.6%.

| *In thousands of GEL* | 1H'21 | 1H'20 | *Change YoY* |
|---|---|---|---|
| **Losses from modifications of financial instruments** | (1,591) | (34,170) | -95.3% |
| **Profit before tax** | **460,904** | **44,917** | **NMF** |
| Income tax expense | (57,525) | 24,283 | NMF |
| **Profit for the period** | **403,379** | **69,200** | **NMF** |
| | | | |
| **ROE** | **25.9%** | **5.2%** | **20.7 pp** |
| **ROE before expected credit loss allowances** | **24.3%** | **23.3%** | **1.0 pp** |
| **ROA** | **3.6%** | **0.7%** | **2.9 pp** |

## Funding and Liquidity

As of 30 June 2021, the total liquidity coverage ratio, as defined by the NBG, was 127.1%, above the 100% limit, while the LCR in GEL and FC stood at 122.9% and 129.2% respectively, above the respective limits of 75% and 100%.

As of 30 June 2021, NSFR stood at 130.6%, compared to the regulatory limit of 100%.

| | 30-Jun-21 | 30-Jun-20 | *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 | 130.6% | 127.5% | 3.1 pp |
| | | | |
| Net loans to deposits + IFI funding | 102.8% | 105.3% | -2.5 pp |
| Leverage (Times) | 6.6x | 7.5x | -0.9x |
| | | | |
| *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* | *75%** | *n/a* | *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 | 127.1% | 124.8% | 2.3 pp |
| LCR in GEL, as defined by the NBG | 122.9% | 141.0% | -18.1 pp |
| LCR in FC, as defined by the NBG | 129.2% | 117.3% | 11.9 pp |

** In May 2021, NBG restored the NBG GEL LCR limit, which was temporarily removed for one year*

## Regulatory Capital

On a YoY basis, the bank's CET1, Tier 1 and Total capital adequacy ratios increased by 3.0pp, 2.8pp and 2.4pp, respectively. The increase was mainly driven by strong net income generation, which was partially offset by local currency depreciation and an increase in loan book.

| *In thousands of GEL* | 30-Jun-21 | 30-Jun-20 | *Change YoY* |
|---|---|---|---|
| CET 1 Capital | 2,382,595 | 1,631,006 | 46.1% |
| Tier 1 Capital | 2,837,805 | 2,068,052 | 37.2% |
| Total Capital | 3,573,282 | 2,787,136 | 28.2% |
| Total Risk-weighted Exposures | 18,275,845 | 16,249,475 | 12.5% |
| *Minimum CET 1 ratio* | *11.2%** | *6.9%* | *4.3 pp* |
| CET 1 Capital adequacy ratio | 13.0% | 10.0% | 3.0 pp |
| *Minimum Tier 1 ratio* | *13.5%** | *8.7%* | *4.8 pp* |
| Tier 1 Capital adequacy ratio | 15.5% | 12.7% | 2.8 pp |
| *Minimum total capital adequacy ratio* | *17.8%** | *13.3%* | *4.5 pp* |
| Total Capital adequacy ratio | 19.6% | 17.2% | 2.4 pp |

** Minimum requirement with restored buffers*

## Loan Portfolio

As of 30 June 2021, the gross loan portfolio reached GEL 15,274.9 million, up by 12.0% YoY or up by 8.5% on a constant currency basis. The YoY increase was spread across all segments. The proportion of gross loans denominated in foreign currency decreased by 4.4pp YoY and accounted for 56.3 % of total loans, while on a constant currency basis the proportion of gross loans denominated in foreign currency was down by 5.9pp YoY and stood at 54.9%.

As of 30 June 2021, our market share in total loans stood at 38.1%, down by 1.4pp YoY, while our loan market share in legal entities was 38.0%, down by 1.3pp over the same period, and our loan market share in individuals stood at 38.3%, down by 1.6pp QoQ.

| *In thousands of GEL* | 30-Jun-21 | 30-Jun-20 | *Change YoY* |
|---|---|---|---|
| **Loans and advances to customers** | | | |
| **Retail** | **5,688,519** | **5,229,005*** | **8.8%** |
| *Retail loans GEL* | *3,100,158* | *2,536,206* | *22.2%* |
| *Retail loans FC* | *2,588,361* | *2,692,799* | *-3.9%* |
| **CIB** | **5,851,634** | **5,200,281** | **12.5%** |
| *CIB loans GEL* | *1,746,149* | *1,344,965* | *29.8%* |
| *CIB loans FC* | *4,105,485* | *3,855,316* | *6.5%* |
| **MSME** | **3,734,773** | **3,206,106** | **16.5%** |
| *MSME loans GEL* | *1,828,264* | *1,470,959* | *24.3%* |
| *MSME loans FC* | *1,906,509* | *1,735,147* | *9.9%* |
| **Total loans and advances to customers** | **15,274,926** | **13,635,392** | **12.0%** |

** In 1Q 2021, we reclassified all relevant BS and PL items of the Wealth Management business from Retail Banking to CIB. As of 30 June 2020, GEL 129.7 million loans were reclassified. For more information, please refer to Annex 5.*

| | 1H'21 | 1H'20 | *Change YoY* |
|---|---|---|---|
| **Loan yields** | **10.0%** | **10.1%** | **-0.1 pp** |
| *Loan yields GEL* | *14.8%* | *15.2%* | *-0.4 pp* |
| *Loan yields FC* | *6.6%* | *6.7%* | *-0.1 pp* |
| **Retail Loan Yields** | **11.2%** | **11.1%** | **0.1 pp** |
| *Retail loan yields GEL* | *15.7%* | *16.3%* | -0.6 pp |
| *Retail loan yields FC* | *6.3%* | *6.4%* | -0.1 pp |
| **CIB Loan Yields** | **8.8%** | **8.8%** | **0.0 pp** |
| *CIB loan yields GEL* | *13.3%* | *13.3%* | *0.0 pp* |
| *CIB loan yields FC* | *7.1%* | *7.1%* | *0.0 pp* |
| **MSME Loan Yields** | **10.1%** | **10.5%** | **-0.4 pp** |
| *MSME loan yields GEL* | *14.8%* | *15.4%* | *-0.6 pp* |
| *MSME loan yields FC* | *6.0%* | *6.3%* | *-0.3 pp* |

## Loan Portfolio Quality

On a YoY basis, total par 30 and NPL ratio increased by 0.9pp and 0.5pp, respectively, mainly driven by the Retail and MSME segments. The increase was primarily attributable to the low base in 2Q 2020, which was related to the payment holidays offered to our customers. This effect was slightly offset by a 0.3pp drop in the CIB segment, which was driven by a repayment from a single large CIB borrower.

| **Par 30** | **30-Jun-21** | **30-Jun-20** | ***Change YoY*** |
|---|---|---|---|
| Retail | 3.0% | 1.3% | 1.7 pp |
| CIB | 0.3% | 0.6% | -0.3 pp |
| MSME | 3.9% | 2.3% | 1.6 pp |
| **Total Loans** | **2.2%** | **1.3%** | **0.9 pp** |

| **Non-performing Loans** | **30-Jun-21** | **30-Jun-20** | ***Change YoY*** |
|---|---|---|---|
| Retail | 4.0% | 3.0% | 1.0 pp |
| CIB | 1.6% | 2.0% | -0.4 pp |
| MSME | 5.4% | 4.2% | 1.2 pp |
| **Total Loans** | **3.4%** | **2.9%** | **0.5 pp** |

| **NPL Coverage** | **30-Jun-21** | | **30-Jun-20** | |
|---|---|---|---|---|
| | Provision Coverage | Total Coverage | Provision Coverage | Total Coverage |
| Retail | 117.9% | 189.6% | 188.5% | 253.8% |
| CIB | 82.9% | 157.0% | 107.7% | 177.7% |
| MSME | 64.8% | 152.7% | 91.9% | 177.0% |
| **Total** | **91.3%** | **169.6%** | **134.7%** | **208.0%** |

## Cost of risk

The total cost of risk for 1H 2021 stood at -0.4%, down by 2.4pp YoY. The recoveries in credit loss allowances were related to the improved macro outlook on the back of the better than expected economic performance, as well as repayment from a single large CIB borrower as explained above.

| **Cost of Risk** | **1H'21** | **1H'20** | ***Change YoY*** |
|---|---|---|---|
| Retail | 0.4% | 3.3% | -2.9 pp |
| CIB | -1.1% | 0.7% | -1.8 pp |
| MSME | -0.5% | 2.3% | -2.8 pp |
| **Total** | **-0.4%** | **2.1%** | **-2.5 pp** |

## Deposit Portfolio

The total deposits portfolio increased by 23.5% YoY and amounted to GEL 12,870.4 million, while on a constant currency basis the total deposit portfolio increased by 20.1pp over the same period. The proportion of deposits denominated in foreign currency was up by 0.1pp YoY and accounted for 65.7% of total deposits, while on a constant currency basis the proportion of deposits denominated in foreign currency dropped by 0.9pp YoY and stood at 64.8%.

As of 30 June 2021, our market share in deposits amounted to 37.8%, up by 0.7 pp YoY, and our market share in deposits to legal entities stood at 35.7%, down by 0.2 pp over the same period. Our market share in deposits to individuals stood at 39.6%, up by 1.6pp QoQ.

| *In thousands of GEL* | 30-Jun-21 | 30-Jun-20 | *Change YoY* |
|---|---|---|---|
| **Customer Accounts** | | | |
| **Retail** | **5,287,787** | **4,227,236*** | **25.1%** |
| *Retail deposits GEL* | *1,269,466* | *1,094,920* | *15.9%* |
| *Retail deposits FC* | *4,018,321* | *3,132,316* | *28.3%* |
| **CIB** | **5,939,188** | **4,874,761*** | **21.8%** |
| *CIB deposits GEL* | *2,218,972* | *1,791,102* | *23.9%* |
| *CIB deposits FC* | *3,720,216* | *3,083,659* | *20.6%* |
| **MSME** | **1,397,516** | **1,178,321** | **18.6%** |
| *MSME deposits GEL* | *675,932* | *555,530* | *21.7%* |
| *MSME deposits FC* | *721,584* | *622,791* | *15.9%* |
| **Total Customer Accounts**** | **12,870,418** | **10,420,330** | **23.5%** |

** In 1Q 2021, we reclassified all relevant BS and PL items of the Wealth Management business from Retail Banking to CIB. As of 30 June 2020, GEL 1,792.1 million deposits were reclassified. For more information, please refer to Annex 5.*
*** Total deposit portfolio includes Ministry of Finance deposits in the amount of GEL 140 million and GEL 246 million as of 30 June 2020 and 30 June 2021, respectively*

| | 1H'21 | 1H'20 | *Change YoY* |
|---|---|---|---|
| **Deposit rates** | **3.4%** | **3.5%** | **-0.1 pp** |
| *Deposit rates GEL* | *6.6%* | *6.4%* | *0.2 pp* |
| *Deposit rates FC* | *1.8%* | *1.9%* | *-0.1 pp* |
| **Retail Deposit Yields** | **2.4%** | **2.6%** | **-0.2 pp** |
| *Retail deposit rates GEL* | *4.9%* | *5.4%* | *-0.5 pp* |
| *Retail deposit rates FC* | *1.6%* | *1.7%* | *-0.1 pp* |
| **CIB Deposit Yields** | **4.5%** | **4.0%** | **0.5 pp** |
| *CIB deposit rates GEL* | *8.0%* | *8.3%* | *-0.3 pp* |
| *CIB deposit rates FC* | *2.2%* | *2.5%* | *-0.3 pp* |
| **MSME Deposit Yields** | **0.8%** | **0.9%** | **-0.1 pp** |
| *MSME deposit rates GEL* | *1.5%* | *1.6%* | *-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 and Investment Banking (CIB) – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Some other business customers may also be assigned to the CIB segment or transferred to the MSME segment on a discretionary basis. In addition, CIB includes Wealth Management private banking services to high-net-worth individuals with the threshold of US$ 250,000 on assets under management (AUM), as well as on discretionary basis;
- Retail – non-business individual customers;
- MSME – business customers who are not included in the CIB segment; or individual customers of the fully digital bank, Space.
- 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'21 | Retail | MSME | CIB | Corp.Centre | Total |
|---|---|---|---|---|---|
| Interest income | 321,483 | 181,002 | 271,402 | 125,298 | 899,185 |
| Interest expense | (63,061) | (5,931) | (121,201) | (254,243) | (444,436) |
| Net gains from currency swaps | | | | 13,149 | 13,149 |
| *Net transfer pricing* | (72,867) | (68,593) | 24,865 | 116,595 | - |
| **Net interest income** | **185,555** | **106,478** | **175,066** | **799** | **467,898** |
| Fee and commission income | 101,851 | 23,323 | 46,861 | 14,118 | 186,153 |
| Fee and commission expense | (24,364) | (14,698) | (34,754) | (4,036) | (77,852) |
| **Net fee and commission income** | **77,487** | **8,625** | **12,107** | **10,082** | **108,301** |
| Net insurance premium earned after claims and acquisition costs | - | - | - | 9,873 | 9,873 |
| Net gains from derivatives, foreign currency operations and translation | 14,201 | 11,730 | 22,576 | 11,677 | 60,184 |
| Gains less Losses from Disposal of Investment Securities Measured at Fair Value through Other Comprehensive Income | - | - | 515 | 6,526 | 7,041 |
| Other operating income | 3,511 | 726 | 1,642 | 31,604 | 37,483 |
| Share of profit of associates | - | - | - | 596 | 596 |
| **Other operating non-interest income and insurance profit** | **17,712** | **12,456** | **24,733** | **60,276** | **115,177** |
| Credit loss allowance for loans to customers | (10,344) | 9,687 | 33,220 | - | 32,563 |
| Credit loss allowance for performance guarantees and credit related commitments | 405 | (74) | 1,599 | - | 1,930 |
| Credit loss allowance for investments in finance lease | - | - | - | (2,515) | (2,515) |
| Credit loss allowance for other financial assets | (3,309) | - | (625) | (1,392) | (5,326) |
| Credit loss allowance for financial assets measured at fair value through other comprehensive income | - | - | 738 | 1,104 | 1,842 |
| Other non-financial assets impairment | 108 | 23 | 7 | (585) | (447) |
| **Profit/(loss) before G&A expenses and income taxes** | **267,614** | **137,195** | **246,845** | **67,769** | **719,423** |
| **Losses from modifications of financial instruments** | **(642)** | **(93)** | **(856)** | **-** | **(1,591)** |
| Staff costs | (66,060) | (27,774) | (22,140) | (32,097) | (148,071) |
| Depreciation and amortization | (23,609) | (5,859) | (2,454) | (4,779) | (36,701) |
| Provision for liabilities and charges | - | - | - | (9) | (9) |
| Administrative and other operating expenses | (34,525) | (13,639) | (7,618) | (16,365) | (72,147) |
| **Operating expenses** | **(124,194)** | **(47,272)** | **(32,212)** | **(53,250)** | **(256,928)** |
| **Profit before tax** | **142,778** | **89,830** | **213,777** | **14,519** | **460,904** |
| Income tax expense | (15,329) | (11,402) | (24,846) | (5,948) | (57,525) |
| **Profit** | **127,449** | **78,428** | **188,931** | **8,571** | **403,379** |

## Consolidated Financial Statements of TBC Bank Group PLC

**Consolidated Balance sheet**

| *In thousands of GEL* | **Jun-21** | **Jun-20** |
|---|---|---|
| Cash and cash equivalents | 1,414,414 | 981,803 |
| Due from other banks | 59,314 | 30,879 |
| Mandatory cash balances with National Bank of Georgia | 2,117,157 | 1,794,010 |
| Loans and advances to customers | 14,796,968 | 13,105,988 |
| Investment securities measured at fair value through other comprehensive income | 2,022,385 | 1,082,520 |
| Bonds carried at amortized cost* | 10,069 | 1,335,415 |
| Investments in finance leases | 245,261 | 270,172 |
| Investment properties | 33,407 | 70,716 |
| Current income tax prepayment | 14,966 | 36,703 |
| Deferred income tax asset | 6,747 | 7,470 |
| Other financial assets[25] | 287,761 | 174,378 |
| Other assets | 311,218 | 258,349 |
| Premises and equipment | 371,909 | 345,265 |
| Right of use assets | 51,160 | 62,664 |
| Intangible assets | 284,555 | 194,689 |
| Goodwill | 59,964 | 60,296 |
| Investments in associates | 4,286 | 2,112 |
| **TOTAL ASSETS** | **22,091,541** | **19,813,429** |
| **LIABILITIES** | | |
| Due to credit institutions | 3,482,830 | 4,403,406 |
| Customer accounts | 12,870,418 | 10,420,330 |
| Lease liabilities | 53,755 | 65,937 |
| Other financial liabilities[21] | 124,308 | 138,749 |
| Current income tax liability | 653 | 692 |
| Debt Securities in issue | 1,445,614 | 1,396,141 |
| Deferred income tax liability | 18,457 | 5 |
| Provisions for liabilities and charges | 21,435 | 25,558 |
| Other liabilities | 101,265 | 80,557 |
| Subordinated debt | 635,981 | 628,649 |
| **TOTAL LIABILITIES** | **18,754,716** | **17,160,024** |
| **EQUITY** | | |
| Share capital | 1,682 | 1,682 |
| Shares held by trust | (25,489) | (34,450) |
| Share premium | 848,459 | 848,459 |
| Retained earnings | 2,680,951 | 2,029,545 |
| Group re-organisation reserve | (162,167) | (162,167) |
| Share based payment reserve | (15,348) | (31,808) |
| Fair value reserve | 170 | (1,492) |
| Cumulative currency translation reserve | (5,199) | (5,685) |
| **Net assets attributable to owners** | **3,323,059** | **2,644,084** |
| **Non-controlling interest** | 13,766 | 9,321 |
| **TOTAL EQUITY** | **3,336,825** | **2,653,405** |
| **TOTAL LIABILITIES AND EQUITY** | **22,091,541** | **19,813,429** |

** In 2020, the Group changed its business model in relation to certain portfolio of bonds carried at amortized cost (Ministry of Finance Treasury Bills). The respective reclassifications have been applied prospectively from 1 January 2021, as required by IFRS. As a result of reclassification, Bonds carried at amortized cost in the amount of GEL 1,059,946 thousand has been transferred to Investment securities measured at fair value through other comprehensive income with the fair value of GEL 1,086,008 thousand. The difference has been recognized in other comprehensive income as required by IFRS*

[25] Other financial assets and liabilities do not contain offset amounts of omnibus accounts for TBC Capital (nominee accounts, where TBC Capital acts as a fiduciary on client's behalf).

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

| *In thousands of GEL* | 1H'21 | 1H'20 |
|---|---|---|
| Interest income | 899,185 | 787,893 |
| Interest expense | (444,436) | (408,091) |
| Net gains from currency swaps | 13,149 | 12,522 |
| **Net interest income** | **467,898** | **392,324** |
| Fee and commission income | 186,153 | 138,752 |
| Fee and commission expense | (77,852) | (55,683) |
| **Net fee and commission income** | **108,301** | **83,069** |
| Net insurance premiums earned | 30,289 | 26,618 |
| Net insurance claims incurred and agents' commissions | (20,416) | (16,337) |
| **Net insurance premium earned after claims and acquisition costs** | **9,873** | **10,281** |
| Net gains from derivatives, foreign currency operations and translation | 60,184 | 47,759 |
| Gains less losses from disposal of investment securities measured at fair value through other comprehensive income | 7,041 | (1,202) |
| Other operating income | 37,483 | 7,977 |
| Share of profit of associates | 596 | 90 |
| **Other operating non-interest income** | **105,304** | **54,624** |
| Credit loss allowance for loans to customers | 32,563 | (249,216) |
| Credit loss allowance for investments in finance lease | (2,515) | (4,278) |
| Credit loss allowance for performance guarantees and credit related commitments | 1,930 | (797) |
| Credit loss allowance for other financial assets | (5,326) | (4,222) |
| Credit loss allowance for financial assets measured at fair value through other comprehensive income | 1,842 | (538) |
| Other non-financial assets impairment | (447) | (625) |
| **Operating profit after expected credit losses** | **719,423** | **280,622** |
| **Losses from modifications of financial instruments** | **(1,591)** | **(34,170)** |
| Staff costs | (148,071) | (114,006) |
| Depreciation and amortization | (36,701) | (32,215) |
| (Provision for)/ recovery of liabilities and charges | (9) | 77 |
| Administrative and other operating expenses | (72,147) | (55,391) |
| **Operating expenses** | **(256,928)** | **(201,535)** |
| **Profit before tax** | **460,904** | **44,917** |
| Income tax expense | (57,525) | 24,283 |
| **Profit** | **403,379** | **69,200** |
| **Other comprehensive income:** | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Movement in fair value reserve | (10,985) | 4,984 |
| Exchange differences on translation to presentation currency | (3,072) | 1,165 |
| **Other comprehensive income for the period** | **(14,057)** | **6,149** |
| **Total comprehensive income for the period** | **389,322** | **75,349** |
| **Profit attributable to:** | | |
| - Shareholders of TBCG | 399,168 | 67,625 |
| - Non-controlling interest | 4,211 | 1,575 |
| **Profit** | **403,379** | **69,200** |
| **Total comprehensive income is attributable to:** | | |
| - Shareholders of TBCG | 385,120 | 73,793 |
| - Non-controlling interest | 4,202 | 1,556 |
| **Total comprehensive income for the period** | **389,322** | **75,349** |

**Consolidated Statements of Cash Flows**

| *In thousands of GEL* | 30-Jun-21 | 30-Jun-20 |
|---|---|---|
| **Cash flows from/(used in) operating activities** | | |
| Interest received | 906,444 | 579,414 |
| Interest received on currency swaps | 13,149 | 12,522 |
| Interest paid | (452,751) | (404,923) |
| Fees and commissions received | 170,658 | 131,347 |
| Fees and commissions paid | (78,793) | (56,054) |
| Insurance and reinsurance received | 43,358 | 43,373 |
| Insurance claims paid | (16,239) | (13,458) |
| Income received from trading in foreign currencies | 32,659 | 49,406 |
| Other operating income received | 28,880 | 2,860 |
| Staff costs paid | (134,594) | (120,706) |
| Administrative and other operating expenses paid | (79,430) | (61,860) |
| Income tax paid | (4,446) | (11,983) |
| ***Cash flows from operating activities before changes in operating assets and liabilities*** | ***428,895*** | ***149,938*** |
| **Net change in operating assets** | | |
| Due from other banks and mandatory cash balances with the National Bank of Georgia | 23,326 | (183,202) |
| Loans and advances to customers | (711,980) | (357,130) |
| Net investments in lease | 24,158 | 11,008 |
| Other financial assets | (38,835) | (8,483) |
| Other assets | 14,151 | 10,847 |
| **Net change in operating liabilities** | | |
| Due to credit institutions | 11,940 | 85,357 |
| Customer accounts | 667,190 | (88,078) |
| Other financial liabilities | (137,291) | 11,915 |
| Other liabilities and provision for liabilities and charges | 16,659 | 3,838 |
| ***Net cash flows from operating activities*** | ***298,213*** | ***(363,990)*** |
| **Cash flows from/(used in) investing activities** | | |
| Acquisition of investment securities measured at fair value through other comprehensive income | (196,871) | (251,486) |
| Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income | 757,583 | 180,702 |
| Acquisition of bonds carried at amortised cost | - | (495,945) |
| Proceeds from redemption of bonds carried at amortised cost | 19,633 | 171,137 |
| Acquisition of premises, equipment and intangible assets | (91,993) | (74,550) |
| Proceeds from disposal of premises, equipment and intangible assets | 6,334 | 24,172 |
| Proceeds from disposal of investment property | 20,210 | 3,128 |
| Acquisition of subsidiaries and associates | - | 936 |
| ***Net cash used in investing activities*** | ***514,896*** | ***(441,906)*** |
| **Cash flows from/(used in) financing activities** | | |
| Proceeds from other borrowed funds | 1,757,879 | 1,615,016 |
| Redemption of other borrowed funds | (2,736,476) | (966,746) |
| Acquisition of treasury shares | - | (25,493) |
| Repayment of principal of lease liabilities | (5,591) | (5,420) |
| Redemption of subordinated debt | (12,562) | - |
| Proceeds from debt securities in issue | - | 171,531 |
| Redemption of debt securities in issue | - | (12,569) |
| Dividends paid | (1,741) | - |
| ***Net cash flows from financing activities*** | ***(998,491)*** | ***776,319*** |
| ***Effect of exchange rate changes on cash and cash equivalents*** | ***(35,609)*** | ***7,797*** |
| ***Net increase in cash and cash equivalents*** | ***(220,991)*** | ***(21,780)*** |
| ***Cash and cash equivalents at the beginning of the period*** | ***1,635,405*** | ***1,003,583*** |
| ***Cash and cash equivalents at the end of the period*** | ***1,414,414*** | ***981,803*** |

## 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'21** | **1H'20** |
|---|---|---|
| **Profitability ratios:** | | |
| ROE[1] | 25.9% | 5.2% |
| ROA[2] | 3.6% | 0.7% |
| ROE before expected credit loss allowances[3] | 24.3% | 23.3% |
| Cost to income[4] | 37.2% | 37.3% |
| NIM[5] | 4.8% | 4.7% |
| Loan yields[6] | 10.0% | 10.1% |
| Deposit rates[7] | 3.4% | 3.5% |
| Yields on interest earning assets[8] | 9.4% | 9.4% |
| Cost of funding[9] | 4.6% | 5.0% |
| Spread[10] | 4.8% | 4.4% |
| **Asset quality & portfolio concentration:** | | |
| Cost of risk[11] | -0.4% | 2.1% |
| PAR 90 to Gross Loans[12] | 1.2% | 1.0% |
| NPLs to Gross Loans[13] | 3.4% | 2.9% |
| NPL provision coverage[14] | 91.3% | 134.7% |
| Total NPL coverage[15] | 169.6% | 208.0% |
| Credit loss level to Gross Loans[16] | 3.1% | 3.9% |
| Related Party Loans to Gross Loans[17] | 0.1% | 0.1% |
| Top 10 Borrowers to Total Portfolio[18] | 7.8% | 8.2% |
| Top 20 Borrowers to Total Portfolio[19] | 11.9% | 12.3% |
| **Capital & liquidity positions:** | | |
| Net Loans to Deposits plus IFI* Funding[20] | 102.8% | 105.3% |
| Net Stable Funding Ratio[21] | 130.6% | 127.5% |
| Liquidity Coverage Ratio[22] | 127.1% | 124.8% |
| Leverage[23] | 6.6x | 7.5x |
| CET 1 CAR (Basel III)[24] | 13.0% | 10.0% |
| Regulatory Tier 1 CAR (Basel III)[25] | 15.5% | 12.7% |
| Regulatory Total 1 CAR (Basel III)[26] | 19.6% | 17.2% |

** International Financial Institutions*

## Ratio definitions

1. Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period; annualised where applicable.
2. Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period; annualised where applicable.
3. Return on average total equity (ROE) before expected credit loss allowances equals net income attributable to owners excluding all credit loss allowance with respective tax effects, but after net modification losses divided by the monthly average of total shareholders' equity attributable to the PLC's equity holders for the same period.
4. Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities (excluding CIB shares), net investment in finance lease, net loans, and amounts due from credit institutions.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
8. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets; annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities; annualised where applicable.
10. Spread equals difference between yields on interest earning assets (including but not limited to yields on loans, securities and due from banks) and cost of funding (including but not limited to cost of deposits, cost on borrowings and due to banks).
11. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
12. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
13. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with a well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
14. NPL provision coverage equals total credit loss allowance for loans to customers divided by the NPL loans.
15. Total NPL coverage equals total credit loss allowance plus the minimum of collateral amount of the respective NPL loan (after applying haircuts in the range of 0%-50% for cash, gold, real estate and PPE) and its gross loan exposure divided by the gross exposure of total 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. 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. 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. 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 US$/GEL exchange rate of 3.0552 as of 30 June 2020. As of 30 June 2021 the US$/GEL exchange rate equaled 3.1603. For P&L items growth calculations without currency effect, we used the average US$/GEL exchange rate for the following periods: 1H 2021 of 3.3207, 1H 2020 of 3.0323.

.

## Additional Disclosures

### 1) TBC Bank – Background

TBC Bank is the largest banking group in Georgia, where 99.4% of its business is concentrated, with a 38.2% market share by total assets. It offers retail, CIB, 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 United Kingdom. TBC PLC is listed on the London Stock Exchange under the symbol TBCG and is a constituent of the FTSE Small Cap Index. It is also a member of the FTSE4Good Index Series and the MSCI United Kingdom Small Cap Index.

TBC Bank Group PLC's financial results has been prepared in accordance with UK-adopted International Accounting Standard (IAS) 34 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority (FCA).

### 2) Subsidiaries of TBC Bank Group PLC[26]

| Subsidiary | Ownership / voting % as of 30 June 2021 | Country | Year of incorporation | Industry | Total Assets (after elimination) | |
|---|---|---|---|---|---|---|
| | | | | | Amount GEL'000 | % in TBC Group |
| **JSC TBC Bank** | **99.9%** | **Georgia** | **1992** | **Banking** | **21,434,038** | **97.02%** |
| United Financial Corporation JSC | 99.5% | Georgia | 1997 | Card processing | 17,774 | 0.08% |
| TBC Capital LLC | 100.0% | Georgia | 1999 | Brokerage | 4,498 | 0.02% |
| TBC Leasing JSC | 100.0% | Georgia | 2003 | Leasing | 359,836 | 1.63% |
| TBC Kredit LLC | 100.0% | Azerbaijan | 1999 | Non-banking credit institution | 16,767 | 0.08% |
| TBC Pay LLC | 100.0% | Georgia | 2009 | Processing | 40,565 | 0.18% |
| Index LLC | 100.0% | Georgia | 2011 | Real estate management | 1,500 | 0.01% |
| TBC Invest LLC | 100.0% | Israel | 2011 | PR and marketing | 328 | 0.00% |
| **JSC TBC Insurance** | **100.0%** | **Georgia** | **2014** | **Insurance** | **84,769** | **0.39%** |
| Redmed LLC | 100.0% | Georgia | 2019 | E-commerce | 1,262 | 0.00% |
| **TBC Ecosystem Companies** | **100.0%** | **Georgia** | **2019** | **Asset Management** | **17** | **0.00%** |
| Swoop JSC | 100.0% | Georgia | 2010 | Retail Trade | 544 | 0.00% |
| LLC Online Tickets | 55.0% | Georgia | 2015 | Software Services | 1,667 | 0.01% |
| TKT UZ | 75.00% | **Uzbekistan** | 2019 | Retail Trade | 119 | 0.00% |
| My.ge LLC | 65.0% | Georgia | 2008 | E-commerce, Housing and Auto | 8,752 | 0.04% |
| LLC Vendoo (Geo) | 100.0% | Georgia | 2019 | Retail Leasing | 3,228 | 0.01% |
| LLC Mypost | 100.0% | Georgia | 2019 | Postal Service | 108 | 0.00% |
| LLC Billing Solutions | 51.00% | **Georgia** | 2019 | Software Services | 426 | 0.00% |
| All property.ge LLC | 90.0% | Georgia | 2013 | Real estate management | 2,579 | 0.01% |
| LLC F Solutions | 100.0% | Georgia | 2019 | Software Services | 9 | 0.00% |
| TBC Connect LLC | 100.0% | Georgia | 2020 | Software Services | 2 | 0.00% |
| **TBC Concept** | **100.0%** | **Georgia** | **2020** | **Food Industry** | **305** | **0.00%** |
| **Artarea.ge LLC** | **100.0%** | **Georgia** | **2021** | **PR and marketing** | **51** | **0.00%** |
| Saba | 85.0% | Georgia | 2012 | Education | 47 | 0.00% |
| Art Gallery | 100.0% | Georgia | 2012 | PR and marketing | 0 | 0.00% |
| **Space International JSC** | **100.0%** | **Georgia** | **2021** | **Software Services** | **128** | **0.00%** |
| **TBC Group Support LLC** | **100.0%** | **Georgia** | **2020** | **Risk Management** | **0** | **0.00%** |
| **Inspired LLC** | **51.0%** | **Uzbekistan** | **2011** | **Processing** | **13,265** | **0.06%** |
| **TBC Bank UZ JSCB** | **100.0%** | **Uzbekistan** | **2020** | **Banking** | **64,351** | **0.29%** |
| **LLC Vendoo (UZ Leasing)** | **100.00%** | **Uzbekistan** | **2019** | **Consumer financing** | **1,429** | **0.01%** |

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

## 3) TBC Insurance

TBC Insurance, a wholly owned subsidiary of TBC Bank, is one of the leading players on the Georgian non-health insurance market. The company was acquired by the Group in October 2016 and has since grown significantly, becoming the second largest player on the property and casualty insurance and life insurance (non-health) market and the largest player in the retail segment, holding 16.7% and 32.2% market shares[27] without border motor third party liability (MTPL) insurance, respectively, in 2Q 2021.

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

In 2Q 2021, net profit including the health insurance business amounted to GEL 2,846 thousands, which was broadly flat YoY, attributable to a high base in 2Q 2020, which resulted from the decrease in claims due to the COVID-19 lockdown, as well as effective cost control.

The QoQ increase in net profit including health insurance business was driven by the revival of business activities and the seasonal low in 1Q 2021.

| **Information excluding health insurance** | **2Q'21** | **1Q'21** | **2Q'20** | **1H'21** | **1H'20** |
|---|---|---|---|---|---|
| *In thousands of GEL* | | | | | |
| Gross written premium | 22,831 | 21,263 | 18,849 | 44,094 | 37,143 |
| Net earned premium[28] | 18,595 | 16,653 | 15,535 | 35,248 | 31,538 |
| Net profit | 3,512 | 2,895 | 3,033 | 6,406 | 5,092 |
| Net combined ratio | 81.6% | 83.5% | 79.4% | 82.5% | 82.9% |

| **Information including health insurance** | **2Q'21** | **1Q'21** | **2Q'20** | **1H'21** | **1H'20** |
|---|---|---|---|---|---|
| *In thousands of GEL* | | | | | |
| Gross written premium | 26,414 | 25,515 | 21,540 | 51,929 | 41,735 |
| Net earned premium | 21,539 | 19,131 | 17,329 | 40,671 | 34,647 |
| Net profit | 2,846 | 2,193 | 2,894 | 5,039 | 4,365 |
| Net combined ratio | 88.0% | 90.1% | 82.6% | 89.0% | 87.0% |

*Note: IFRS standalone data*

[27] Market shares are based on internal estimates. Source is Insurance State Supervision Service of Georgia. Total non-health and retail market share in 2Q 2021 including MTPL stood at 16.2% and 29.6% respectively

[28] Net earned premium equals earned premium minus the reinsurer's share of earned premium.

### 4) First digital bank in Uzbekistan

In October 2020 we successfully launched TBC UZ, a digital commercial bank in Uzbekistan, which demonstrated a rapid growth:

| *in thousands of GEL* | **Jul-2021** | **Jun-2021** | **May-2021** | **Apr-2021** | **Mar-2021** |
|---|---|---|---|---|---|
| # of total registered users | 403 | 302 | 230 | 157 | 98 |
| Loan portfolio (GEL) | 31,797 | 25,239 | 14,997 | 6,144 | 953 |
| Deposit portfolio (GEL) | 49,585 | 15,543 | 11,567 | 6,543 | 2,839 |
| # of total cards issued (cumulative figures) | 78 | 66 | 54 | 42 | 31 |
| # of other cards attached (cumulative figures) | 187 | 126 | 81 | 49 | 29 |
| Total monthly number of transactions | 626 | 563 | 407 | 323 | 203 |

### 5) Reclassification of certain balance sheet profit and loss items and changes in methodology

In 1Q 2021, we reclassified certain BS and PL items for all quarters of 2020 and 1Q 2021, as outlined below.

## Wealth Management business reclassification

Following structural changes in the Management Board, starting from January 2021, Deputy CEO George Tkhelidze, head of Corporate and Investment Banking, assumed responsibility for the Wealth Management business. As a result, we reclassified all relevant BS and PL items of the Wealth Management business from Retail Banking to Corporate and Investment Banking.

The amounts of the Wealth Management loan and deposit portfolios are given in a table below:

| | **Loan book (million GEL)** | **Deposit portfolio (million GEL)** |
|---|---|---|
| June 2021 | 142.8 | 2,193.7 |
| March 2021 | 139.0 | 2,415.9 |
| June 2020 | 129.7 | 1,792.1 |

## Reclassification of other non-financial assets impairment

In 2021, the Group reclassified impairment/recovery of non-financial assets from "Administrative and other operating expenses" to "Impairment of other non-financial assets". A significant part of any impairment/recoveries recorded is related to repossessed assets and investment properties. The management believes that those type of assets are not actively used in daily operations, but are primarily targeted for sale in the future. Considering the nature of those expenses/recovery, such a presentation is more appropriate and would increase the understandability and clarity of the Group's financial statements. The presentation of comparative figures has been adjusted to conform to the presentation of the current period amounts:

| | **As originally presented at 30 June 2020** | **Reclassification** | **As reclassified at 30 June 2020** |
|---|---|---|---|
| Impairment of other non-financial assets | - | (625) | (625) |
| Administrative and other operating expenses | (56,016) | 625 | (55,391) |

## Changes in methodology - NPL collaterals coverage

In 1Q 2021, in order to further increase the focus on the collateral coverage, the Bank reviewed its methodology and applied a more conservative approach, namely under the updated methodology, the collateral amount is capped at the respective loan amount. The NPL coverages for all four quarters of 2020 have been recalculated per updated methodology.

The table below outlines the NPL coverage ratios as of 30 June 2020, calculated per previous and the updated methodology.

| | **Collateral coverage** | | **Total NPL coverage (provisions plus collateral)** | |
|---|---|---|---|---|
| | Per previous methodology | Per updated methodology | Per previous methodology | Per updated methodology |
| Retail | 79% | 65% | 267% | 254% |
| CIB | 160% | 70% | 268% | 178% |
| MSME | 115% | 85% | 207% | 177% |
| **Total** | **112%** | **73%** | **247%** | **208%** |

## 6) Loan book breakdown by stages according IFRS 9

**Total (in million GEL)**

| | **30-Jun-21** | | **31-Mar-21** | | **30-Jun-20** | |
|---|---|---|---|---|---|---|
| **Stage** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** |
| 1 | 12,709 | 0.9% | 12,101 | 1.1% | 11,332 | 1.6% |
| 2 | 1,803 | 5.6% | 2,296 | 5.4% | 1,899 | 10.3% |
| 3 | 763 | 34.4% | 935 | 36.1% | 404 | 38.9% |
| **Total** | **15,275** | **3.1%** | **15,332** | **3.8%** | **13,635** | **3.9%** |

**CIB (in million GEL)**

| | **30-Jun-21** | | **31-Mar-21** | | **30-Jun-20** | |
|---|---|---|---|---|---|---|
| **Stage** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** |
| 1 | 4,899 | 0.9% | 4,760 | 1.1% | 4,556 | 1.1% |
| 2 | 826 | 1.0% | 991 | 0.9% | 479 | 1.3% |
| 3 | 127 | 18.8% | 188 | 24.5% | 165 | 32.9% |
| **Total** | **5,852** | **1.3%** | **5,939** | **1.8%** | **5,200** | **2.1%** |

**MSME (in million GEL)**

| | **30-Jun-21** | | **31-Mar-21** | | **30-Jun-20** | |
|---|---|---|---|---|---|---|
| **Stage** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** |
| 1 | 3,026 | 0.7% | 2,764 | 0.9% | 2,652 | 1.5% |
| 2 | 459 | 6.3% | 583 | 7.0% | 443 | 10.0% |
| 3 | 250 | 31.9% | 285 | 32.5% | 111 | 34.7% |
| **Total** | **3,735** | **3.5%** | **3,632** | **4.4%** | **3,206** | **3.8%** |

**Retail (in million GEL)**

| | **30-Jun-21** | | **31-Mar-21** | | **30-Jun-20** | |
|---|---|---|---|---|---|---|
| **Stage** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** | **Gross** | **LLP rate*** |
| 1 | 4,784 | 1.0% | 4,577 | 1.0% | 4,124 | 2.1% |
| 2 | 519 | 12.3% | 722 | 10.4% | 976 | 14.9% |
| 3 | 386 | 41.1% | 462 | 43.1% | 129 | 50.1% |
| **Total** | **5,689** | **4.7%** | **5,761** | **5.6%** | **5,229** | **5.7%** |

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

## 7) Reconciliation of Return on Equity (ROE) with ROE before expected credit loss allowances

*Income Statement Highlights*

| # | *in thousands of GEL* | 2Q'21 | 1Q'21 | 2Q'20 | 1H'21 | 1H'20 |
|---|---|---|---|---|---|---|
| 1. | Net interest income | 242,767 | 225,131 | 184,365 | 467,898 | 392,324 |
| 2. | Net fee and commission income | 63,008 | 45,293 | 39,517 | 108,301 | 83,069 |
| 3. | Other operating non-interest income | 74,512 | 40,665 | 26,161 | 115,177 | 64,905 |
| 4. | Credit loss allowance | 45,291 | (17,244) | (12,586) | 28,047 | (259,676) |
| 5. | **Operating profit after expected credit losses** | **425,578** | **293,845** | **237,457** | **719,423** | **280,622** |
| 6. | Losses from modifications of financial instrument | (104) | (1,487) | (3,527) | (1,591) | (34,170) |
| 7. | Operating expenses | (134,688) | (122,240) | (95,059) | (256,928) | (201,535) |
| 8. | **Profit before tax** | **290,786** | **170,118** | **138,871** | **460,904** | **44,917** |
| 9. | Income tax expense | (40,394) | (17,131) | (12,665) | (57,525) | 24,283 |
| 10. | **Profit for the period** | **250,392** | **152,987** | **126,206** | **403,379** | **69,200** |
| 12. | **Profit for the period less Non-controlling interest** | **247,946** | **151,224** | **125,100** | **399,170** | **67,625** |
| 13. | *Income tax expense of credit loss allowance* | *4,685* | *(1,593)* | *(1,215)* | *2,901* | *(25,071)* |
| 14. | **Profit before Credit loss allowances less Non-controlling interest and respective tax effect (12 - 4 + 13)** | **207,340** | **166,875** | **136,471** | **374,024** | **302,230** |

| # | *in thousands of GEL* | 2Q'21 | 1Q'21 | 2Q'20 | 1H'21 | 1H'20 |
|---|---|---|---|---|---|---|
| 15. | Average equity attributable to the PLC's equity holders | 3,203,351 | 3,017,527 | 2,576,397 | 3,109,965 | 2,607,011 |
| 16. | Return on equity (ROE) (12÷15)* | 31.0% | 20.3% | 19.5% | 25.9% | 5.2% |
| 17. | Return on equity (ROE) before expected credit loss allowances (14÷15)* | 26.0% | 22.4% | 21.3% | 24.3% | 23.3% |

**annualised where applicable*

## Material Existing and Emerging Risks

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

## Principal Risks and Uncertainties

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

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

**Risk description**

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

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

**Risk mitigation**

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

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

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

The Group's credit portfolio is structurally highly diversified across customer types, product types and industry segments, which minimizes credit risk at the Group level. As of 30 June 2021, the retail segment represented 37.2% of the total portfolio, which was split between mortgage and non-mortgage exposures of 66.7% and 33.3%, respectively. No single business sector represented more than 9.6% of the total portfolio as of 30th June 2021.

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 collateralized portfolio in all its segments, with real estate representing a major share of collateral. As of 30 June 2021, 75.4% of the Group's portfolio was secured by cash, real estate or gold. A sound collateral management framework ensures that collateral serves as an adequate mitigating factor for credit risk management purposes.

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

In the first half of 2021, the grace periods ended for those loans that had been restructured in late 2020. On the back of strong economic recovery and easing of Covid-19-related restrictions,the vast majority of these borrowers managed to successfully continue repayment, which resulted in a decrease in non-performing loans and improvements in the portfolio quality in general.

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

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

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

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

**Risk description**

A significant share of the Group's loans (and a large share of the total banking sector loans in Georgia) is denominated in currencies other than GEL, mainly in US$ and EUR. As of 30 June 2021, 56.3% 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 the first half of 2021 and the average currency exchange rate of GEL weakened by 9.5% year-on-year. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in its depreciation.

**Risk mitigation**

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

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

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

An abrupt slowdown in the economic recovery, or even contraction, owing to pandemic-related disruptions and further lockdowns due to the slow vaccination process and newly emerged virus variants, will likely have an additional adverse impact on the repayment capacity of borrowers, restraining their future investment and expansion plans. In addition, the Fed's new hike cycle started earlier than expected amid fast recovery in the US economy, which could trigger the GEL depreciation and slower growth of the Georgian economy. These occurrences would be reflected in the Group's portfolio quality and profitability, and would also impede portfolio growth rates. Negative macroeconomic developments could compromise the Group's performance through various parameters, such as exchange rate depreciation, a spike in interest rates, rising unemployment, a decrease in household disposable income, falling property prices, worsening loan collateralization, or falling debt service capabilities of companies as a result of decreasing sales. Potential political and economic instability in neighboring countries and main trading/economic partners could negatively impact Georgia's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

**Risk description**

As a result of the COVID-19 pandemic, Georgia endured an economic downturn in 2020, with real GDP down by 6.2%. The 2021 first quarter real GDP growth came in at a negative 4.5%, yet affected by the pandemic-related restrictions and still relatively high base effect a year before; thereafter, amid easing COVID-related restrictions and global recovery, the economy has embarked on a rebound path, increasing by 44.8% YoY (+20.8 compared to 2019), 25.8% YoY (+8.8 compared to 2019) and 18.7% YoY (+9.6% compared to 2019) in April, May and June, respectively. Going forward, according to TBC Capital projections the economy is estimated to recover by 10.5% and 6.5% in 2021 and 2022 respectively. According to the World Bank's latest projections[29], the Georgian economy is projected to grow at 6.0% in 2021 and by 5.0% in 2022.

Since the beginning of 2021, the GEL gained some value against the US dollar, rising from 3.28 US$/GEL to 3.14 US$/GEL, as of 15 July. In June 2021, consumer prices went up considerably by 9.9%, which can be primarily explained by increased commodity prices, a weak GEL and increased gas tariffs in Tbilisi. Since the beginning of 2021, the NBG increased its policy rate from 8.0% to 9.5%. Considering the moderating inflation outlook, the recovery in tourism inflows and lower pressures on the exchange rate, it is likely that there will be gradual rate cuts this year.

In addition to use of the interest rate policy tool, the NBG continued to supply FX to the market in 2021, selling in total US$ 248 million as of June 2021 (US$ 873.2 million in 2020). These interventions were primarily financed through external government borrowing. The fiscal deficit also significantly supported the overall growth as well as assisting those businesses and households that were impacted negatively by the pandemic. According to the budget plan, the fiscal deficit is expected to be sizeable again in 2021, with a deficit to GDP ratio of 6.9% (compared to 9.3% of GDP in 2020). Bank credit growth strengthened to 12.6% year-on-year in FX adjusted terms by the end of June 2021, compared to 9.1% year-on-year growth by the end of 2020.

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

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

[29] World Bank, Global Economic Prospects, June 2021

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

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

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

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

Since the above-mentioned countercyclical measures were put in place, the NBG outlined a new schedule for the gradual introduction of capital requirements under Basel III. According to the new schedule, concentration risk and the net GRAPE buffers phase-in resumed from March 2021 and will be fully introduced by March 2023. The systemic buffer will increase by 0.5pp to 2.5% at the end of 2021.

In June 2021, the NBG also announced its decision on the restoration of CICR and Conservation buffers. Based on this decision, the restoration of buffers will begin from January 2022 and will last for two years. Banks will be required to fully restore the CICR buffer by the end of 2022 and Conservation buffer by the end of 2023. However, the Bank should fully restore and comply with the buffers in case it wants to pay out dividends.

Since the introduction of these measures, the Bank has been utilizing both the conservation and 2/3rds of the CICR buffer, and was restricted from making any capital distributions. However, amid strong capital generation, as of June 2021, TBC Bank is in full compliance with the fully restored minimum requirements and has confirmed to the NBG that it will fully restore the temporarily released capital buffers by 31 July 2021. This lifts any regulatory restriction on making capital distributions.

The Bank's capitalization as of 30th June 2021 is given in the table below:

| | **Minimum Requirements** | **Fully Restored Minimum Requirements** | **TBC Capital Adequacy Ratios** | **Surplus over Min Requirements** | **Surplus over Fully Restored Minimum Requirements** |
|---|---|---|---|---|---|
| CET1 Capital | 7.8% | 11.2% | 13.0% | 5.2% | 1.8% |
| Tier 1 Capital | 9.8% | 13.5% | 15.5% | 5.7% | 2.0% |
| Total Capital | 13.7% | 17.8% | 19.6% | 5.9% | 1.8% |

Apart from the challenges brought by the Covid-19 pandemic, GEL volatility has been and remains one of the most significant risks impacting the Bank's capital adequacy. A 10% GEL depreciation would translate into a 0.87pp, 0.77pp and 0.64 pp drop in the Bank's CET 1, Tier 1 and Total regulatory capital adequacy ratios, respectively.

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

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

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

**Risk description**

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

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

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

The Group takes all necessary steps to comply with the relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements.

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

### 6. The Group is exposed to concentration risk

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

**Risk description**

The Group's loan portfolio is diversified, with maximum exposure to the single largest industry (Hospitality, Restaurants & Leisure) standing at 9.2% of the loan portfolio, which demonstrates adequate credit portfolio diversification. At the end of half year 2021, exposure to the 20 largest borrowers stands at 11.9% of the loan portfolio, which is in line with the Group's target of alleviating concentration risk.

**Risk mitigation**

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

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

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

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

**Risk description**

The Group was in compliance with the minimum liquidity requirements set by the NBG, which include the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). As of 30 June 2021, the net loan to deposits plus international financial institution funding ratio stood at 102.8%, the liquidity coverage ratio at 127.1%, and the net stable funding ratio at 130.6%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

| | **30-Jun-21** | **31-Dec-20** | **31-Dec-19** |
|---|---|---|---|
| *Minimum net stable funding ratio, as defined by the NBG* | *100%* | *100%* | *100%* |
| Net stable funding ratio as defined by the NBG | 130.6% | 126.0% | 126.7% |
| Net loans to deposits + IFI funding | 102.8% | 101.2% | 104.8% |
| *Minimum total liquidity coverage ratio, as defined by the NBG* | *100.0%* | *100.0%* | *100.0%* |
| *Minimum LCR in GEL, as defined by the NBG* | *75%* | *n/a* | *75.0%* |
| *Minimum LCR in FC, as defined by the NBG* | *100.0%* | *100.0%* | *100.0%* |
| Total liquidity coverage ratio, as defined by the NBG | 127.1% | 134.2% | 110.1% |
| LCR in GEL, as defined by the NBG | 122.9% | 132.2% | 83.7% |
| LCR in FC, as defined by the NBG | 129.2% | 134.9% | 128.4% |

In May 2021, NBG restored the NBG GEL LCR limit (>=75%), which was removed for one year as one of the countercyclical measures implemented in relation to liquidity requirements as a result of COVID-19.

**Risk mitigation**

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

As part of its liquidity risk management framework, the Group has a liquidity contingency plan in place outlining the risk indicators for different stress scenarios and respective action plans. The liquidity risk position and compliance with internal limits are closely monitored by the Assets and Liabilities Management Committee (ALCO). Due to its high liquidity position in foreign currency, the Bank made prepayments of some IFI resources in the amount of US$ 143m in late 2020 and throughout the first half of 2021.

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

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

**Risk description**

The majority of the Group's total income derives from net interest income. Consequently, the NIM's fluctuations affect the Group's results. In first half of 2021, the NIM increased by 0.1pp year-on-year to 4.8%, mainly driven by a decrease in the cost of funding for both local and foreign currencies, as well as change in liability structure towards deposits.

The Bank manages its exposure to interest rate risk, following the NBG IRR regulation introduced from September 2020. As of 30 June 2021, GEL 3,959[30] million in assets (19%) and GEL 2,095[3] million in liabilities (11%) were floating in GEL currency, whereas GEL 7,673[3] million of assets (36%) and GEL 1,077[3] million of liabilities (6%) were floating, related to the LIBOR/Euribor/FED/ECB rates.

The Bank was in compliance with the EVE (Economic Value of Equity) sensitivity limit set by the NBG at 15% of Tier 1 Capital, with the ratio standing at 3.3% by 30 June 2021.

**Risk mitigation**
In 2021, NIM had an improving trend, after the decrease since the start of the Covid-19 pandemic; this positive trend is expected to continue throughout 2021. The strong performance in net fee and commission income and other operating income, as well as efficient cost discipline, helps safeguard against margin declines and profitability concerns for the Group going forward.

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

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

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

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

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

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

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

The Information Security Steering Committee governs information and cyber security to ensure that relevant risks are at an acceptable level and that continuous improvement of the management processes are achieved.
Disaster recovery plans are in place to ensure business continuity in case of contingency.
As a result of the COVID-19 pandemic, the Group activated secure remote working policies, which ensure that homeworking environments are protected against relevant cyber-threats and that the security team provides effective oversight of teleworking channels. Although there has been a noticeable increase in phishing attempts against employees, there have been no major incidents. The Security Operation Center and Threat Hunting teams have successfully adopted effective remote collaboration and communication tools and practices.

[30] Standalone figures of the Bank, calculated per NBG standards

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

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

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

**11. The Group remains exposed to some reputational risk**

**Risk Description**
There are reputational risks to which the Group may be exposed, such as risks related to the COVID-19 pandemic, and increased cases of cybercrimes (cyberattack, phishing). The upcoming elections in October 2021 make all banks a target for popular resentment as some politicians use anti-bank narratives during their pre-election campaigns.
However, none of the aforementioned risks are unique to the Group; instead, they are issues faced by the entire banking sector.

**Risk Mitigation**
To mitigate the possibility of reputational risks, the Bank has all of the necessary safeguards in place, including preventive measures, contingency plans and crisis response scenarios. The Bank works continuously to maintain strong brand recognition among its stakeholders, actively monitoring its brand value and media coverage by receiving feedback from stakeholders on an ongoing basis. The Bank closely monitors and reports on any negative publicity about TBC. The Group tries to identify early warning signs of potential reputational or brand damage in order to both mitigate and elevate it to the attention of the Board before escalation. Dedicated internal and external marketing and communications teams are in place that monitor risks, develop response scenarios and respective action plans.

**12. The Group faces the risk that its strategic initiatives do not translate into long-term sustainable value for its stakeholders**
The Group's business strategy may not adapt to the environment of ever changing customer needs.

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

However, increased uncertainty together with the major economic and social disruptions caused by the COVID-19 pandemic may hamper the Group's ability to effectively develop and execute its strategic initiatives in a timely manner.
**Risk Mitigation**
The Group conducts annual strategic review sessions involving the Bank's top and middle management in order to ensure that it remains on the right track and assess business performance across different perspectives, concentrating analysis on key trends and market practices, both in the regional and global markets. In addition, the Bank continuously works with the world's leading consultants in order to enhance its strategy. Further, the Group conducts quarterly analysis and

monitoring of metrics used to measure strategy execution, and in case of any significant deviations, it ensures the development of corrective or mitigation actions.

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

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

**Risk Description**

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

**Risk Mitigation**

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

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

## Emerging Risks

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

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

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

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

**Risk description**

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

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

Despite the impact of the COVID-19 pandemic, Uzbekistan's economy grew by 1.6% in 2020. According to the latest World Bank's forecasts[31] for 2021-2022, real GDP growth is expected to accelerate to 4.8% and 5.5%, respectively.

**Risk mitigation**
The Group's strategy is to follow an asset-light, limited capital investment approach with a strong focus on digital channels and to invest in stages, to make sure that we are comfortable with the results and the operating environment before committing additional investment. The Group plans to serve retail and MSME customers, which will in turn lead to a non-concentrated portfolio and to lower credit risk. The Group will partner 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.

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. The Group is exposed to the 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 materialize through the impairment of asset values and the deteriorating creditworthiness of our customers, which could result in a 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 minimize negative impacts on the environment. This approach enables us to reduce our ecological footprint by using resources efficiently and promoting environmentally friendly measures in order to mitigate climate change.

The Group has in place an Environmental Policy, which governs its Environmental Management System ("EMS") and ensures that the Group's operations adhere 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. The management of environmental and social risks is embedded in the Group's lending process through 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.

The full Environmental Policy is available at www.tbcbankgroup.com. In June 2021, the Group released its full-scale sustainability report for the year 2020 in reference to the Global Reporting Initiative (GRI) standards. The Global Reporting Initiative (GRI) helps the private sector to realise and understand its role and influence on sustainable development issues such as climate change, human rights and governance. The report is designed for all interested parties and groups in Georgia as well as abroad and aims to give them clear, fact-based information about the social, economic and environmental impact of our activities in 2020. It presents our endeavours to create value for our employees, clients, suppliers, partners and society as a whole. The Sustainability Report 2020 is available at www.tbcbankgroup.com.

We are in the process of introducing the Task Force for a Climate-related Financial Disclosure (TCFD) framework.

**Governance:**

- The ESG strategy will be further refined and developed in order to integrate the following: environmental, social and governance factors related to climate change; our direct and indirect environmental impact, sustainable development across the Group, customers, employees, suppliers and society, financial inclusion, employee relations and talent management; and workplace diversity and inclusion.
- A framework to ensure regular reporting of ESG matters to the Board and Risk Committee is in the process of development.
- An ESG Committee has been established at the senior executive level, which takes responsibility for implementing the ESG strategy and overseeing the implementation of the TCFD framework.

[31] World Bank, Global Economic Prospects, June 2021

- A working group has been established with strong focus on climate related matters.

**Strategy:**

- The Group is in process of analysing actual and potential impacts of climate-related risks and opportunities on its business activities.
- By the end of 2021, TBC Bank is planning full implementation of the Green Lending Framework within the Group, which will encourage our customers to run their businesses in more eco-friendly way. In the beginning of July 2021, TBC Bank received accreditation from Green Climate Fund that will enable the Bank to have direct access to GCF funding to finance projects for adaptation to, and mitigation of, climate change and play a leading role in supporting sustainable development in Georgia.

**Risk Management**

- The Group is planning to undertake the specific risk analysis TCFD framework, which will allow us to better understand the climate risks and sector specific developments in order to further enhance our E&S risk management system.

**Metrics and targets:**

- The Group is working on defining climate related targets for different time horizons and respective metrics within ESG strategy;

ESG KPIs linked to top management remuneration will be defined.

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

**Risk description**

There are a number of different types of financial instruments on the Group's balance sheet, each of which carries interest rates benchmarked to the London Interbank Offered Rate ("LIBOR"). LIBOR is also used by the Group in its risk measurement, accounting and valuation processes. In 2017, the FCA announced that it has agreed with LIBOR panel banks to sustain LIBOR until the end of 2021 and called upon financial sector participants to start working towards the transition to other reference rates. As was disclosed in H1 2021, part indices will be discontinued by the end of 2021YE, while other indices will be discontinued by the end of H1 2023. 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. 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. As a first step in the transition process, the Bank started including fall-back clauses in new loan agreements, regulating the transition from LIBOR after its discontinuation. We actively monitor international as well as local transition-related developments to regulate and align the Group's transition process with market practice.

## 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 UK-adopted International Accounting Standard 34, 'Interim Financial Reporting';
- The interim management report herein includes a fair review of the information required by Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority (FCA), 4.2.7R and 4.2.8R namely:
    - an indication of important events that have occurred during the six months ended 30 June 2021 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 2021 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 2021.

Signed on behalf of the Board by:

Vakhtang Butskhrikidze

CEO

17 August 2021

TBC Bank Group PLC Board of Directors:

**Chairman**
Arne Berggren

**Executive Directors**
Vakhtang Butskhrikidze (CEO)

**Non-executive Directors**
Eran Klein
Maria Luisa Cicognani
Tsira Kemularia
Per Anders Fasth
Thymios P. Kyriakopoulos
Abhijit Akerkar

# TBC BANK GROUP PLC

# Condensed Consolidated Interim Financial Statements (Unaudited)

# 30 June 2021

## 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 2021 Financial Results of TBC Bank Group plc for the 6 month period ended 30 June 2021 (the "period").

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 UK adopted International Accounting Standard 34, 'Interim Financial Reporting' 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 2021;
- 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;
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2Q and 1H 2021 Financial Results of TBC Bank Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### Responsibilities for the interim financial statements and the review

**Our responsibilities and those of the directors**
The 2Q and 1H 2021 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 2021 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 2021 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 Information 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 information 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 2021 Financial Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
17 August 2021

## TBC Bank Group PLC
## Condensed Consolidated Interim Statement of Financial Position

| *In thousands of GEL* | Note | 30 June 2021 (Unaudited) | 31 December 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | 1,414,414 | 1,635,405 |
| Due from other banks | 6 | 59,314 | 50,805 |
| Mandatory cash balances with National Bank of Georgia | 7 | 2,117,157 | 2,098,506 |
| Loans and advances to customers | 8 | 14,796,968 | 14,594,274 |
| Investment securities measured at fair value through other comprehensive income | 9 | 2,022,385 | 1,527,268 |
| Bonds carried at amortised cost | | 10,069 | 1,089,801 |
| Net investments in leases | | 245,261 | 271,660 |
| Investment properties | | 33,407 | 68,689 |
| Current income tax prepayment | | 14,966 | 69,888 |
| Deferred income tax asset | | 6,747 | 2,787 |
| Other financial assets | | 287,761 | 171,302 |
| Other assets | | 311,218 | 266,960 |
| Premises and equipment | 10 | 371,909 | 372,956 |
| Right of use assets | | 51,160 | 53,927 |
| Intangible assets | 10 | 284,555 | 239,523 |
| Goodwill | | 59,964 | 59,964 |
| Investments in associates | | 4,286 | 4,090 |
| **TOTAL ASSETS** | | **22,091,541** | **22,577,805** |
| **LIABILITIES** | | | |
| Due to credit institutions | 11 | 3,482,830 | 4,486,373 |
| Customer accounts | 12 | 12,870,418 | 12,572,728 |
| Other financial liabilities | | 124,308 | 227,432 |
| Current income tax liability | 24 | 653 | 853 |
| Deferred income tax liability | | 18,457 | 13,088 |
| Debt securities in issue | 14 | 1,445,614 | 1,496,497 |
| Provisions for liabilities and charges | 13 | 21,435 | 25,335 |
| Other liabilities | | 101,265 | 87,842 |
| Lease liabilities | | 53,755 | 58,983 |
| Subordinated debt | 15 | 635,981 | 672,740 |
| **TOTAL LIABILITIES** | | **18,754,716** | **19,641,871** |
| **EQUITY** | | | |
| Share capital | 16 | 1,682 | 1,682 |
| Shares held by trust | | (25,489) | (33,413) |
| Share premium | | 848,459 | 848,459 |
| Retained earnings | | 2,680,951 | 2,281,428 |
| Group reorganisation reserve | | (162,167) | (162,167) |
| Share based payment reserve | 17 | (15,348) | (20,568) |
| Fair value reserve | | 170 | 11,158 |
| Cumulative currency translation reserve | | (5,199) | (2,124) |
| **Net assets attributable to owners** | | **3,323,059** | **2,924,455** |
| Non-controlling interest | | 13,766 | 11,479 |
| **TOTAL EQUITY** | | **3,336,825** | **2,935,934** |
| **TOTAL LIABILITIES AND EQUITY** | | **22,091,541** | **22,577,805** |

The condensed consolidated interim financial statements on pages 62 to 121 were approved by the Board of Directors on 17 August 2021 signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

## Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

| *In thousands of GEL* | Note | Six months ended 30 June 2021 (Unaudited) | Six months ended 30 June 2020 (Unaudited/restated*) |
|---|---|---|---|
| Interest income | 20 | 899,185 | 787,893 |
| Interest expense | 20 | (444,436) | (408,091) |
| Net interest gains on currency swaps | 20 | 13,149 | 12,522 |
| **Net interest income** | | **467,898** | **392,324** |
| Fee and commission income | 21 | 186,153 | 138,752 |
| Fee and commission expense | 21 | (77,852) | (55,683) |
| **Net fee and commission income** | | **108,301** | **83,069** |
| Net insurance premiums earned | | 30,289 | 26,618 |
| Net insurance claims incurred and agents' commissions | | (20,416) | (16,337) |
| **Insurance profit** | | **9,873** | **10,281** |
| Net gains from currency derivatives, foreign currency operations and translation | | 60,184 | 47,759* |
| Net gains/(losses) from disposal of investment securities measured at fair value through other comprehensive income | | 7,041 | (1,202) |
| Other operating income | 22 | 37,483 | 7,977 |
| Share of profit of associates | | 596 | 90 |
| **Other operating non-interest income** | | **105,304** | **54,624** |
| Recovery of/(charges to) credit loss allowance for loan to customers | 8 | 32,563 | (249,216) |
| Credit loss allowance for investments in leases | | (2,515) | (4,278) |
| Recovery of/(charges to) credit loss allowance for performance guarantees and credit related commitments | 13 | 1,930 | (797) |
| Credit loss allowance for other financial assets | | (5,326) | (4,222) |
| Recovery of/(charges to) credit loss allowance for financial assets measured at fair value through other comprehensive income | | 1,842 | (538) |
| Net impairment of non-financial assets | | (447) | (625)* |
| **Operating profit after expected credit and non-financial asset impairment losses** | | **719,423** | **280,622*** |
| Losses from modifications of financial instruments | 8 | (1,591) | (34,170) |
| Staff costs | | (148,071) | (114,006) |
| Depreciation and amortisation | 10 | (36,701) | (32,215) |
| (Charges to)/recovery of provision for liabilities and charges | | (9) | 77 |
| Administrative and other operating expenses | 23 | (72,147) | (55,391)* |
| **Operating expenses** | | **(256,928)** | **(201,535)*** |
| **Profit before income tax** | | **460,904** | **44,917** |
| Income tax (expense)/credit | 24 | (57,525) | 24,283 |
| **Profit for the period** | | **403,379** | **69,200** |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Movement in fair value reserve | | (10,985) | 4,984 |
| Exchange differences on translation to presentation currency | | (3,072) | 1,165 |
| **Other comprehensive (expense)/income for the period** | | **(14,057)** | **6,149** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **389,322** | **75,349** |

*Certain amounts do not correspond to the 30 June 2020 condensed consolidated interim financial statements as they reflect the adjustments made due to the changes in classification, as described in Note 2.

| | | Six months ended | |
|---|---|---|---|
| *In thousands of GEL* | **Note** | **30 June 2021 (Unaudited)** | **30 June 2020 (Unaudited/restated*)** |
| **Profit is attributable to:** | | | |
| - Shareholders of TBCG | | 399,168 | 67,625 |
| - Non-controlling interest | | 4,211 | 1,575 |
| **Profit for the period** | | **403,379** | **69,200** |
| **Total comprehensive income is attributable to:** | | | |
| - Shareholders of TBCG | | 385,120 | 73,793 |
| - Non-controlling interest | | 4,202 | 1,556 |
| **Total comprehensive income for the period** | | **389,322** | **75,349** |
| Earnings per share for profit attributable to the owners of the Group: | | | |
| - Basic earnings per share | 18 | 7.33 | 1.24 |
| - Diluted earnings per share | 18 | 7.24 | 1.23 |

*Certain amounts do not correspond to the 30 June 2020 condensed consolidated interim financial statements as they reflect the adjustments made due to changes in classification, as described in Note 2.

## Condensed Consolidated Interim Statement of Changes in Equity

| *In thousands of GEL* | Note | Share capital | Shares held by trust | Share pre-mium | Group reorganisation reserve | Share based payments reserve | Fair value reserve | Cumulative currency translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of 1 January 2020** | | **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 for six months ended 30 June 2020 (unaudited) | | - | - | - | - | - | 4,984 | 1,184 | - | **6,168** | (19) | **6,149** |
| **Total comprehensive income for six months ended 30 June 2020 (unaudited)** | | **-** | **-** | **-** | **-** | **-** | **4,984** | **1,184** | **67,625** | **73,793** | **1,556** | **75,349** |
| Share based payment expense | 17 | - | - | - | - | 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** |
| **Balance as of 31 December 2020** | | **1,682** | **(33,413)** | **848,459** | **(162,167)** | **(20,568)** | **11,158** | **(2,124)** | **2,281,428** | **2,924,455** | **11,479** | **2,935,934** |
| Profit for the six months ended 30 June 2021 (unaudited) | | - | - | - | - | - | - | - | 399,168 | **399,168** | 4,211 | **403,379** |
| Effect of change in business model* | | - | - | - | - | - | 26,062 | - | - | **26,062** | - | **26,062** |
| Other comprehensive income for six months ended 30 June 2021 (unaudited) | | - | - | - | - | - | (37,047) | (3,063) | - | **(40,110)** | (9) | **(40,119)** |
| **Total comprehensive income for six months ended 30 June 2021 (unaudited)** | | **-** | **-** | **-** | **-** | **-** | **(10,985)** | **(3,063)** | **399,168** | **385,120** | **4,202** | **389,322** |
| Share based payment expense | 17 | - | - | - | - | 14,258 | - | - | 238 | **14,496** | (3) | **14,493** |
| Delivery of shares to employees under SBP scheme | | - | 7,924 | - | - | (9,038) | - | - | - | **(1,114)** | - | **(1,114)** |
| Dividends paid to non-controlling interest | | | | | | | | | | **-** | (1,741) | **(1,741)** |
| Other movements | | - | - | - | - | - | (3) | (12) | 117 | **102** | (171) | **(69)** |
| **Balance as of 30 June 2021 (unaudited)** | | **1,682** | **(25,489)** | **848,459** | **(162,167)** | **(15,348)** | **170** | **(5,199)** | **2,680,951** | **3,323,059** | **13,766** | **3,336,825** |

* Changes in business model in late 2020 resulted in reclassification of bonds carried at amortised cost to investment securities measured at fair value through other comprehensive income, which takes effect from 1 January 2021.

| *In thousands of GEL* | Note | Six months ended 30 June 21 (Unaudited) | Six months ended 30 June 20 (Unaudited/restated*) |
|---|---|---|---|
| **Cash flows from/(used in) operating activities** | | | |
| Interest received | | 906,444 | 579,414 |
| Interest received on currency swaps | | 13,149 | 12,522 |
| Interest paid | | (452,751) | (404,923) |
| Fees and commissions received | | 170,658 | 131,347 |
| Fees and commissions paid | | (78,793) | (56,054) |
| Insurance and reinsurance received | | 43,358 | 43,373 |
| Insurance claims paid | | (16,239) | (13,458) |
| Income received from trading in foreign currencies | | 32,659 | 49,406 |
| Other operating income received | | 28,880 | 2,860 |
| Staff costs paid | | (134,594) | (120,706) |
| Administrative and other operating expenses paid | | (79,430) | (61,860) |
| Income tax paid | | (4,446) | (11,983) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **428,895** | **149,938** |
| **Net change in operating assets** | | | |
| Due from other banks and mandatory cash balances with the National Bank of Georgia | | 23,326 | (183,202) |
| Loans and advances to customers | | (711,980) | (357,130) |
| Net investments in lease | | 24,158 | 11,008 |
| Other financial assets | | (38,835) | (8,483)* |
| Other assets | | 14,151 | 10,847 |
| **Net change in operating liabilities** | | | |
| Due to credit institution | | 11,940 | 85,357 |
| Customer accounts | | 667,190 | (88,078) |
| Other financial liabilities | | (137,291) | 11,915 |
| Other liabilities and provision for liabilities and charges | | 16,659 | 3,838 |
| **Net cash from/(used in) operating activities** | | **298,213** | **(363,990)*** |
| **Cash flows from/(used in) investing activities** | | | |
| Acquisition of investment securities measured at fair value through other comprehensive income | | (196,871) | (251,486) |
| Proceeds from redemption at maturity/disposal of investment securities measured at fair value through other comprehensive income | | 757,583 | 180,702 |
| Acquisition of bonds carried at amortised cost | | - | (495,945) |
| Proceeds from redemption of bonds carried at amortised cost | | 19,633 | 171,137 |
| Acquisition of premises, equipment and intangible assets | 10 | (91,993) | (74,550) |
| Proceeds from disposal of premises, equipment and intangible assets | 10 | 6,334 | 24,172 |
| Proceeds from disposal of investment property | | 20,210 | 3,128 |
| Acquisition of subsidiaries and associates | | - | 936 |
| **Net cash from/(used in) investing activities** | | **514,896** | **(441,906)** |
| **Cash flows from/(used in) financing activities** | | | |
| Proceeds from other borrowed funds | | 1,757,879 | 1,615,016 |
| Redemption of other borrowed funds | | (2,736,476) | (966,746) |
| Acquisition of treasury shares | | - | (25,493)* |
| Repayment of principal of lease liabilities | | (5,591) | (5,420) |
| Redemption of subordinated debt | | (12,562) | - |
| Proceeds from debt securities in issue | 14 | - | 171,531 |
| Redemption of debt securities in issue | 14 | - | (12,569) |
| Dividends paid | | (1,741) | - |
| **Net cash flows (used in)/from financing activities** | | **(998,491)** | **776,319*** |
| Effect of exchange rate changes on cash and cash equivalents | | (35,609) | 7,797 |
| Net decrease in cash and cash equivalents | | (220,991) | (21,780) |
| **Cash and cash equivalents at the beginning of the period** | **5** | **1,635,405** | **1,003,583** |
| **Cash and cash equivalents at the end of the period** | **5** | **1,414,414** | **981,803** |

*Certain amounts do not correspond to the 30 June 2020 condensed consolidated interim financial statements as they reflect the adjustments made due to changes in classification, as described in Note 2.

## 1 Introduction

***Principal activity***. TBC Bank Group PLC ("TBCG" or "Group") is a public limited 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 2021 (31 December 2020: 99.88%), thus representing the Bank's ultimate parent company. The Bank is a parent of a group of companies incorporated in Georgia, Azerbaijan and Uzbekistan and its 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", Note 16). 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 arranged in accordance with Georgian regulations. The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises, retail and micro operations within Georgia. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). In 2018, the Bank launched fully digital bank, Space.

The Group had 151 branches and 8,937 employees mainly within Georgia as at 30 June 2021 (The Group had 156 branches and 7,854 employees mainly within Georgia as at 30 June 2020).

As at 30 June 2021 and 31 December 2020, the following shareholders directly owned more than 3% of the total outstanding shares of the Group. Other shareholders individually owned less than 3% of the outstanding shares. As at 30 June 2021 and 31 December 2020, the Group had no ultimate controlling party. Other includes individual as well as corporate shareholders.

| ***Shareholders*** | **30 June 2021 ownership interest** | **31 December 2020 ownership interest** |
|---|---|---|
| European Bank for Reconstruction and Development | 5.05% | 5.05% |
| Dunross & Co. | 7.42% | 7.42% |
| Schroder Investment Management | 3.27% | 3.12% |
| JPMorgan Asset Management | 3.45% | 4.56% |
| Creation Investments Capital Management | 3.22% | 3.22% |
| Allan Gray Investment Management | 5.33% | 4.26% |
| Founders* | 14.61% | 14.64% |
| Other** | 57.65% | 57.73% |
| **Total** | **100.00%** | **100.00%** |

* Includes effective ownership of Mamuka Khazaradze and Badri Japaridze.

** Other includes individual as well as corporate shareholders.

## 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 2021 | 31 December 2020 | Principal place of business or incorporation | Year of incorpo-ration | Industry |
|---|---|---|---|---|---|
| JSC TBC Bank | 99.88% | 99.88% | Tbilisi, Georgia | 1992 | Banking |
| United Financial Corporation JSC | 99.53% | 99.53% | Tbilisi, Georgia | 2001 | 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 Credit LLC | 100.00% | 100.00% | Baku, Azerbaijan | 1999 | Non-banking credit institution |
| TBC Pay LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2008 | Processing |
| TBC Invest LLC | 100.00% | 100.00% | Ramat Gan,Israel | 2011 | PR and marketing |
| Index LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2009 | 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 Ecosystem companies LLC[32] | 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 | 2008 | 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 | 2018 | Retail leasing |
| Allproperty.ge LLC | 90.00% | 90.00% | Tbilisi, Georgia | 2013 | Real estate management |
| F Solutions LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2016 | Software services |
| TBC Connect | 100.00% | 100.00% | Tbilisi, Georgia | 2020 | Software services |
| Inspired LLC | 51.00% | 51.00% | Tashkent, Uzbekistan | 2011 | Processing |
| VENDOO LLC (UZ Leasing) | 100.00% | 100.00% | Tashkent, Uzbekistan | 2019 | Retail leasing |
| TBC Concept LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2020 | Food and beverage |
| TBC Bank UZ | 100.00% | 100.00% | Tashkent, Uzbekistan | 2020 | Banking |
| TBC Group Support LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2020 | Risk monitoring |
| SABA LLC | 85.00% | N/A | Tbilisi, Georgia | 2012 | Education |
| Artarea.ge LLC | 100.00% | N/A | Tbilisi, Georgia | 2012 | PR and marketing |
| TBC Art Gallery LLC | 100.00% | N/A | Tbilisi, Georgia | 2012 | PR and marketing |
| Space International JSC | 100.00% | N/A | Tbilisi, Georgia | 2021 | Software services |

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries.

The Group has investments in the following associates:

| Associate name | 30 June 2021 | 31 December 2020 | Principal place of business or incorporation | Year of incorporation | Principal activities |
|---|---|---|---|---|---|
| Credit Info Georgia JSC | 21.08% | 21.08% | Tbilisi, Georgia | 2005 | Financial intermediary |
| Tbilisi Stock Exchange JSC | 28.87% | 28.87% | Tbilisi, Georgia | 2015 | Finance, Service |
| Georgian Central Securities Depository JSC | 22.87% | 22.87% | Tbilisi, Georgia | 1999 | Finance, Service |
| Georgian Stock Exchange JSC | 17.33% | 17.33% | Tbilisi, Georgia | 1999 | Finance, Service |
| Kavkasreestri JSC | 10.03% | 10.03% | Tbilisi, Georgia | 1998 | Finance, Service |

[32] The company was renamed from TBC International LLC to TBC Ecosystem companies LLC in the end of 2020.

## 1 Introduction (Continued)

The Group's corporate structure consists of related undertakings not accounted for due to immateriality. A full list of these undertakings, the country of incorporation is set out in appendix A below.

| Company Name | Proportion of voting rights and ordinary share capital 30 June 2021 | 31 December 2020 | 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 | 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 | 2007 | Data Monitoring and Processing |
| JSC Givi Zaldastanishvili American Academy in Georgia | 14.48% | 14.48% | Tbilisi, Georgia | 2001 | Education |
| Banking and Finance Academy of Georgia | 16.67% | 16.67% | Tbilisi, Georgia | 1998 | Education |
| Tbilisi City JSC | 1.80% | 1.80% | Tbilisi, Georgia | 1996 | 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 |
| TBC Capital Asset Management LLC | 100.00% | N/A | Tbilisi, Georgia | 2021 | Asset Management |
| Freeshop.ge LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2010 | Retail Trade |
| The.ge LLC | 100.00% | 100.00% | Tbilisi, Georgia | 2012 | Retail Trade |

***Operating environment of the Group*.** Georgia, where Group's most activities are located, displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 26). Starting from Q2 2021, the Georgian economy is rebounding faster than expected after contracting sharply in 2020. However, Georgia continues to face downside risks to economic growth due to prolongation of the pandemic, internal and external political tensions as well as undesirable side effects of the Fed's sooner-than-expected rate hike.

After declining in early 2021, daily new COVID-19 cases accelerated alongside the emergence of new variants and increased population mobility. Georgia, among other region countries, faces vaccination process challenges, lagging behind the world average. Thus, the probability of reintroduction of restrictive measures is considerable. These measures, among other things, could severely restrict economic activity in Georgia, negatively impacting business environment and clients of the Group, however, likely only temporarily.

Management is taking necessary measures to ensure sustainability of the Group's operations and support its customers and employees. Furthermore, in response of the deteriorated economic situation, the Management took additional measures to identify inefficient processes and through optimising them further support the financial condition of the Group.

The future effects of the current economic situation and the above measures are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 25 provides more information of how the Group incorporated forward-looking information in the ECL models.

### Climate Impact

Although, global market conditions have affected market confidence and consumer spending patterns, the Group remains well placed to continue displaying strong financial results through investing in local and Uzbekistan markets. The Group has reviewed its exposure to climate-related and other emerging business risks, but has not identified any risks, that could significantly impact the financial performance or position of the Group as at 30 June 2021.

## 2 Significant Accounting Policies

### 2.1 Basis of preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. TBC Bank Group PLC and its subsidiaries (together referred to as the "Group") transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

These condensed consolidated interim financial statements for six months ended 30 June 2021 for the Group has been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority (FCA), and in accordance with UK-adopted International Accounting Standard (IAS) 34 'Interim Financial Reporting'. These condensed consolidated interim financial statements do not include all the notes, normally included in 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 2020, which were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

These condensed consolidated 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 have 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 and comply with the loan covenant requirements for the foreseeable future.

***Presentation currency.*** These condensed consolidated interim financial statements are presented in thousands of Georgian Lari ("GEL thousands"), except per-share amounts and unless otherwise indicated.

***Condensed consolidated interim financial statements.*** Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in it. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

**Accounting policies and relevant changes within.** Except as described below, the same accounting policies and methods of computation were followed in the preparation of this condensed consolidated interim financial statements as compared with the annual consolidated financial statements of the Group for the year ended 31 December 2020.

***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.

## 2 Significant Accounting Policies (Continued)

### Changes in presentation of the net gains from currency derivatives, foreign currency operations and translation

To further foster clarity of the condensed consolidated interim financial statement of profit or loss and other comprehensive income, the Group has re-considered the presentation of the net gains from currency derivatives, foreign currency operations and translation. As a result of reclassification, management has combined "Net gains/(losses) from trading in foreign currencies", "Net gains/(losses) from foreign exchange translation" and "Net gains/(losses) from derivative financial instruments", under one financial statement line item "Net gains from currency derivatives, foreign currency operations and translation". Management believes, that such presentation will allow the Group to present the results of foreign currency operations clearly and allow the users to understand the effectiveness of the Group's foreign currency management. June 2020 presentation is in accordance with 2020 year-end report updated policies. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts (detailed breakdown below represents before changes figures, while total represents current presentation):

| *in thousands of GEL* | **30 June 2021** | **30 June 2020** |
|---|---|---|
| Net gains/(losses) from trading in foreign currencies | 32,650 | 49,406 |
| Net gains/(losses) from foreign exchange translation | 27,230 | (1,627) |
| Net gains/(losses) from derivative financial instruments | 304 | (20) |
| **Total net gains from currency derivatives, foreign currency operations and translation** | **60,184** | **47,759** |

### Changes in presentation of the cash flows from operating and financing activities

To further foster clarity and comparability of the condensed consolidated interim statements of cash flow, the Group made following changes: for condensed consolidated interim statements of cash flow, it has re-considered the presentation of acquisition of treasury shares from change in other financial assets (operating activity) and transferred it to "acquisition of treasury shares" (financing activity). For separate statement of cash flows, it has re-considered the presentation of acquisition of treasury shares from Income received from recharge agreement (investing activities) and transferred it to "acquisition of treasury shares" (financing activity).

Management believes, that reclassifications will enable the Group to enhance the presentation of the condensed consolidated interim statements of cash flow from operating, investing and financing activities. June 2020 presentation is in accordance with 2020 year-end report updated policies. The presentation of comparative figures for condensed consolidated interim statements of cash flow has been adjusted per 2020 annual report presentation changes reported:

Effect on consolidated statement of cash flows

| *in thousands of GEL* | **As originally presented** | **Reclassification** | **As restated at 30 June 2020** |
|---|---|---|---|
| Cash flows from operating activities: change in other financial assets | (33,976) | 25,493 | (8,483) |
| Cash flows used in financing activities: acquisition of treasury shares | - | (25,493) | (25,493) |

### Changes in presentation of the impairment of non-financial assets

During 2021, the Group reclassified impairment/recovery of non-financial assets from "Administrative and other operating expenses" to "Impairment of other non-financial assets". Significant part of any impairment/recoveries recorded are related to repossessed assets and investment properties. Management believes, that those type of assets are not actively used in daily operations, but are primarily targeted for sale in future. Considering nature of those expenses/recovery such presentation is more appropriate and would increase understandibility and clarity of the Group's financial statements. The presentation of comparative figures has been adjusted to confirm to the presentation of the current period amounts:

| *in thousands of GEL* | **As originally presented at 30 June 2020** | **Reclassification** | **As restated at 30 June 2020** |
|---|---|---|---|
| Impairment of other non-financial assets | - | (625) | (625) |
| Administrative and other operating expenses | (56,016) | 625 | (55,391) |

## 2 Significant Accounting Policies (Continued)

### Business model change

The Bank historically used Ministry of Finance (MoF) securities to invest the excess monetary resources and receive interest charges in return of the investment. In majority of the cases the securities were held till their maturity and the Bank has not been engaged in trading activities for profit making purposes. As a result, according to their business model such securities were classified under hold to collect category and were recorded as "Bonds carried at amortised cost" in the consolidated and separate statements of financial position.

From the end of 2020 Ministry of Finance has launched a new primary dealer platform to increase liquidity of the securities, further encourage the trading of Government notes and develop Georgian securities market. Third party dealers were established for trading between the Ministry of Finance and investors. The platform should expand investor data base and enhance liquidity of secondary market. TBC Bank will have a primary dealer status in the platform, that enable to act as an intermediary between investors and the Ministry of Finance by executing an order on behalf of investors.

As far as, secondary market became more active from the end of 2020, the Bank plans to stay alert on beneficial market opportunities and start selling Ministry of Finance securities in rare cases, if the action will not impact the liquidity position of the Bank and generate strong profit compared to collecting principal and interest till their maturity. As a result, treasury securities management practices for holding majority of Ministry of Finance securities till their maturity has changed and will depend on the market and liquidity condition of the Bank.

Respective change in Management's processes caused changes in existing business model from hold to collect to hold to collect and sell. Accordingly MOF securities has been re-classified from "Bonds carried at amortised cost" to "Investment securities measured at fair value through other comprehensive income" in the consolidated and separate statements of financial position, with respective effects also accounted in the statement of profit or loss and other comprehensive income. According to IFRS 9 requirement the change has been accounted for prospectively from the reclassification date. The reclassification date represents the first day of the first reporting period following the change in business model, that results in an entity reclassifying financial assets, which is 1 January 2021. Management believes that such presentation is more appropriate for the nature of the transactions.

Based on business model assessment performed, Management considers respective securities should be carried at fair value through other comprehensive income (FVTOCI). Internally performed test of solely payment of principal and interest ('SPPI') has shown, that those securities are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and they are not designated at fair value through profit and loss (FVTPL).

Effects on respective periods are disclosed below:

| *in thousands of GEL* | **Balance as at 31 December 2020** | **Change in business model** | **Balance as at 1 January 2021** |
|---|---|---|---|
| Fair value reserve | 11,158 | 26,062 | 37,220 |
| Bonds carried at amortised cost | 1,089,801 | (1,059,946) | 29,855 |
| Investment securities measured at fair value through other comprehensive income | 1,527,268 | 1,086,008 | 2,613,276 |

## 3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on the management's experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

## 3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

***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 25. 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 2021** | **31 December 2020** |
|---|---|---|
| 20% decrease in SICR thresholds | Increase credit loss allowance on loans and advances by GEL 1,734. Change of the Bank's cost of credit risk ratio by 2 basis points. | Increase credit loss allowance on loans and advances by GEL 2,543. Change of the Bank's cost of credit risk ratio by 2 basis points. |
| 10% increase in Stage 2 exposures | Increase credit loss allowance on loans and advances by GEL 2,220. Change of the Bank's cost of credit risk ratio by 3 basis points. | Increase credit loss allowance on loans and advances by GEL 3,311. Change of the Bank's cost of credit risk ratio by 2 basis points. |

***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 2021** | **31 December 2020** |
|---|---|---|
| 10% increase (decrease) in PD estimates | Increase (decrease) credit loss allowance on loans and advances by GEL 19,928 (GEL 20,308). Change of the Bank's cost of credit risk ratio by 26 (27) basis points. | Increase (decrease) credit loss allowance on loans and advances by GEL 24,901 (GEL 26,013). Change of the Bank's cost of credit risk ratio by 18 (19) basis points. |
| 10% increase (decrease) in LGD estimates | Increase (decrease) credit loss allowance on loans and advances by GEL 41,674 (GEL 44,199). Change of the Bank's cost of credit risk ratio by 55 (58) basis points. | Increase (decrease) credit loss allowance on loans and advances by GEL 50,719 (GEL 53,813). Change of the Bank's cost of credit risk ratio by 37 (39) basis points. |

**Macroeconomic scenarios:** The Bank incorporates forward-looking information with three macro-economic scenarios to calculate unbiased and probability weighted ECL. They represent the Baseline scenario (most likely outcome) and two less likely scenarios, referred as the Upside (better than Baseline) and Downside (worse than Baseline).

In 2020, due to severity of the COVID-19 pandemic impact, the scenario probabilities were 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. Taking into account the prolongation of the pandemic, the weights remained unchanged.

## 3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The following table describes the key macroeconomic variables under each scenario for future 3-year period as at 30 June 2021. Macro assumptions are in line with the range of expected forecasted levels available from Group's macro team as well as external parties as of June 2021.

| | Baseline | | | Upside | | | Downside | | |
|---|---|---|---|---|---|---|---|---|---|
| ***Growth rates YoY, %*** | **2021** | **2022** | **2023** | **2021** | **2022** | **2023** | **2021** | **2022** | **2023** |
| GDP | 6.5% | 6.5% | 5.0% | 7.0% | 7.4% | 6.1% | 5.2% | 4.4% | 2.3% |
| USD/GEL rate (EOP) | 3.25 | 3.20 | 3.05 | 3.03 | 2.86 | 2.70 | 3.46 | 3.44 | 3.34 |
| EUR/GEL rate (EOP) | 3.90 | 3.74 | 3.66 | 3.55 | 3.26 | 3.02 | 4.26 | 4.30 | 4.28 |
| RE Price (in USD) | 2.5% | 1.5% | 2.3% | 4.0% | 3.7% | 5.1% | 0.3% | -1.8% | -1.9% |
| Employment | 2.6% | 1.0% | 1.0% | 2.9% | 1.3% | 1.3% | 2.3% | 0.7% | 0.6% |

The Bank assessed the impact of changes in GDP growth and unemployment variables on ECL. These two macroeconomic variables were identified as most critical economic factors in ECL assessment. The sensitivity analysis was performed separately for each of the variable to show their significant in ECL assessment, but changes in those variables may not happen in isolation as various economic factors tend to be correlated across the scenarios. The variables were adjusted in all three macroeconomic scenarios. From the assessment of forward looking scenarios management is comfortable with the scenarios capturing the non-linearity of the losses.

The table below shows the impact of +/-20% change in GDP growth and unemployment variables across all scenarios on the Bank's ECL:

| | Change in GDP growth | | Change in unemployment | |
|---|---|---|---|---|
| *in thousands of GEL* | **20% increase** | **20% decrease** | **20% increase** | **20% decrease** |
| Impact on ECL | (4,150) | 4,617 | 3,044 | (2,790) |

## 4 New or Revised Standards and Interpretations and Accounting Pronouncements

The following amended standards became effective from 1 January 2021:

**Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).**

In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

Management believes, that the amendment did not have any material impact on the Group.

**Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).**

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:* For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also

**4 New or Revised Standards and Interpretations and Accounting Pronouncements (Continued)**

amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- *End date for Phase 1 relief for non contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Libor is the most frequently used floating rate within the Group, as a result, below analysis is primarily concentrated on Libor change.

**Libor change**

On 5 March 2021, the IBA confirmed its intention to cease the publication of GBP, CHF, EUR, and JPY LIBOR (all tenors) and USD LIBOR (one week and two-month tenors) at the end of 2021. The remaining USD LIBOR tenors will be published by IBA until the end of June 2023.

Under these amendments, practical expedient exists for the changes to the basis for determining the contractual cash flows are reflected by adjusting the effective interest rate. No immediate gain or loss is recognised. These revisions of effective interest rate are only applicable when the change is necessary as a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The Group has implemented a robust plan, that sets out the actions we will take in case LIBOR tenors ceases to exist or materially changes. According to this plan, the Group is taking the following steps:

(a) An impact assessment in relation to that affected benchmark will be performed;
(b) If it has not been feasible and appropriate to nominate an alternative benchmark, a proposal of actions to be taken in relation to the affected benchmark may be prepared. The proposal will take into account the impact assessment and shall consider, for example, the replacement of that benchmark with an alternative benchmark, seeking approval or notifying a regulatory body (where relevant), an amendment to contractual documentation, and notification to stakeholders;
(c) Once the proposal has been approved, internal stakeholders will work together to implement the proposal. For example, clients may be notified or their consent may be sought to change the benchmark, and contractual documentation may be amended.

In coordination with the regulator, international financial institutions, and other stakeholders, the Group is working on the transition process to avoid risking any disorderly cessation events. The Group also enhances its IT systems and internal processes to ensure a smooth transition from LIBOR to alternative benchmark interest rates.

Once alternative benchmark rates are agreed with the international financial institutions for the Group's borrowings, the Management will then assess and match the lending side to manage potential liquidity risks and any arbitrage differences between LIBOR and alternative rates.

**New Accounting Pronouncements**

The IASB has published a number of 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 30 June 2021 and it expects they will have an insignificant effect, when adopted, on the condensed consolidated interim financial statements of the Group.

**4 New or Revised Standards and Interpretations and Accounting Pronouncements (Continued)**

**IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).**

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.

The standard requires recognition and measurement of groups of insurance contracts at: a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements. Potential impact on insurance products embedded in loans and similar instruments is also under consideration.

**Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).**

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

**Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).**

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

**Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)**.

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

## 5 Cash and Cash Equivalents

| *In thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Cash on hand | 832,304 | 755,687 |
| Cash balances with the National Bank of Georgia (other than mandatory reserve deposits) | 166,365 | 102,522 |
| Correspondent accounts and overnight placements with other banks | 415,806 | 588,409 |
| Placements with and receivables from other banks with original maturities of less than three months | 12 | 188,867 |
| **Total gross amount of cash and cash equivalents** | **1,414,487** | **1,635,485** |
| Less: Credit loss allowance | (73) | (80) |
| Stage 1 | (73) | (80) |
| Stage 2 | - | - |
| Stage 3 | - | - |
| **Total cash and cash equivalents** | **1,414,414** | **1,635,405** |

As 30 June 2021, 84% 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 2020: 89%).

As 30 June 2021, there was no interbank placed term deposits neither in non-OECD, nor in OECD banks (As at 31 December 2020 GEL 25,030 thousand was placed on interbank term deposits with one non-OECD bank and GEL 163,838 thousand with one OECD bank).

## 6 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 2021 and 31 December 2020.

As at 30 June 2021 the Group had no placements, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2020: GEL 5,000 thousand). The total aggregated amount of these placement was GEL nil (2020: GEL 2,012 thousand) or 0.0% of the total amount due from other banks (2020: 4.0%).

As at 30 June 2021 GEL 29,132 thousand (2020: GEL 11,744 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 27 for the estimated fair value of amounts due from other banks.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances at 30 June 2021 is GEL 7.4 thousand (2020: GEL 8 thousand).

## 7 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 9.5%, (0.25%) and (0.7%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in June 2021 (2020: 8.0%, (0.25%) and (0.7%) in GEL, USD and EUR respectively).

In February 2021, Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at 'BB'. The Outlook is Negative; The Country Ceiling Rating is affirmed at 'BBB-', short-term foreign and local-currency IDRs at 'B'.

## 8 Loans and Advances to Customers

| *In thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Corporate loans | 5,851,634 | 5,690,749 |
| Consumer loans | 1,892,441 | 2,011,585 |
| Mortgage loans | 3,796,078 | 3,942,102 |
| Loans to micro, small and medium enterprises | 3,734,773 | 3,556,084 |
| **Total gross loans and advances to customers at amortised cost** | **15,274,926** | **15,200,520** |
| Less: credit loss allowance | (477,958) | (606,246) |
| **Total loans and advances to customers at amortised cost** | **14,796,968** | **14,594,274** |

As at 30 June 2021, loans and advances to customers carried at GEL 935,836 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (31 December 2020: GEL 889,353 thousand).

In 2021, the Group has reassessed its definition of segments as disclosed in Note 19. Wealth Management business with high net worth individuals has been transferred from retail to corporate segment due to changes in segment definitions. Other transfers between segments were primarily due to changes in client size and specifications compared to prior period.

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. Major movements in the table are described 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);
- Derecognised during the period refers to the balance of loans and credit loss allowance at the beginning of the period, which were fully repaid during the period. Exposures which were issued and repaid during the period, written off or refinanced by other loans, are excluded;
- Net repayments refers to the net changes in gross carrying amounts, which is loan disbursements less repayments;
- Net write offs refer to write off of loans during the period, while net of written off and recoveries refer to already written off loans for ECL;
- Foreign exchange movements refers to the translation of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary;
- Net 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;

Re-segmentation refers to the transfer of loans from one reporting segment to another. For presentation purposes, amounts are rounded to the nearest thousands of GEL, which in certain cases is disclosed as nil.

## 8 Loans and Advances to Customers (Continued)

| *Total loans* | Gross carrying amount | | | | Credit loss allowance | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of GEL* | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL for credit 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 2021** | **11,860,556** | **2,448,127** | **891,837** | **15,200,520** | **130,226** | **142,912** | **333,108** | **606,246** |
| *Movements with impact on credit loss allowance charge for the period:* | | | | | | | | |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 and Stage 3 to Stage 2) | 805,405 | (805,405) | - | **-** | 36,456 | (36,456) | - | **-** |
| - to defaulted (from Stage 1 and Stage 2 to Stage 3) | (507,875) | 563,130 | (55,255) | **-** | (9,269) | 32,399 | (23,130) | **-** |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | (70,295) | (113,970) | 184,265 | **-** | (8,238) | (20,480) | 28,718 | **-** |
| New originated or purchased | 2,470,736 | - | - | **2,470,736** | 28,957 | - | - | **28,957** |
| Derecognised during the period | (636,690) | (86,633) | (59,962) | **(783,285)** | (96) | (5,552) | (27,777) | **(33,425)** |
| Net repayments | (871,862) | (133,469) | (71,902) | **(1,077,233)** | - | - | - | **-** |
| Net re-measurement due to stage transfers and risk parameters changes | - | - | - | **-** | (62,587) | (11,346) | 45,838 | **(28,095)** |
| *Movements without impact on credit loss allowance charge for the period:* | | | | | | | | |
| Net write-offs | - | - | (107,321) | **(107,321)** | - | - | (92,338) | **(92,338)** |
| Modification | 3,237 | 1,068 | 1,718 | **6,023** | - | - | - | **-** |
| Foreign exchange movements | (344,723) | (70,762) | (23,864) | **(439,349)** | (808) | (643) | (1,936) | **(3,387)** |
| Other movements | 297 | 648 | 3,890 | **4,835** | - | - | - | **-** |
| **At 30 June 2021** | **12,708,786** | **1,802,734** | **763,406** | **15,274,926** | **114,641** | **100,834** | **262,483** | **477,958** |

| *Total loans* | Gross carrying amount | | | | Credit loss allowance | | | |
|---|---|---|---|---|---|---|---|---|
| *In thousands of GEL* | **Stage 1 (12-months ECL)** | **Stage 2 (lifetime ECL for SICR)** | **Stage 3 (lifetime ECL for credit 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** | **11,551,934** | **757,094** | **352,927** | **12,661,955** | **95,689** | **82,687** | **134,180** | **312,556** |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 and Stage 3 to Stage 2) | (1,284,853) | 1,313,249 | (28,396) | **-** | (27,215) | 36,666 | (9,451) | **-** |
| - to defaulted (from Stage 1 and Stage 2 to Stage 3) | (53,073) | (67,656) | 120,729 | **-** | (2,074) | (10,526) | 12,600 | **-** |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | 103,973 | (103,709) | (264) | **-** | 13,411 | (13,196) | (215) | **-** |
| New originated or purchased | 1,579,595 | - | - | **1,579,595** | 58,395 | - | - | **58,395** |
| Derecognised during the period | (511,370) | (59,941) | (8,921) | **(580,232)** | (2,709) | (9,238) | (4,735) | **(16,682)** |
| Net repayments | (461,982) | (4,097) | (15,890) | **(481,969)** | - | - | - | **-** |
| Net Write-offs | - | - | (41,673) | **(41,673)** | - | - | (34,200) | **(34,200)** |
| Net re-measurement due to stage transfers and risk parameters changes | - | - | - | **-** | 37,170 | 106,430 | 52,858 | **196,458** |
| Modifications | (21,392) | (6,885) | (847) | **(29,124)** | - | - | - | **-** |
| Foreign exchange movements | 427,657 | 71,613 | 17,875 | **517,145** | 3,468 | 3,430 | 5,980 | **12,878** |
| Other movements | 2,032 | (827) | 8,490 | **9,695** | - | - | - | **-** |
| **At 30 June 2020** | **11,332,521** | **1,898,841** | **404,030** | **13,635,392** | **176,135** | **196,253** | **157,017** | **529,405** |

## 8 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 2021** | **4,700,871** | **965,036** | **165,964** | **5,831,871** | **54,160** | **8,408** | **46,489** | **109,057** |
| *Movements with impact on credit loss allowance charge for the period:* | | | | | | | | |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 and Stage 3 to Stage 2) | 129,211 | (129,211) | - | **-** | 785 | (785) | - | **-** |
| - to defaulted (from Stage 1 and Stage 2 to Stage 3) | (88,857) | 95,068 | (6,211) | **-** | (1,388) | 1,883 | (495) | **-** |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | 973 | (14,096) | 13,123 | **-** | 9,034 | (267) | (8,767) | **-** |
| New originated or purchased | 680,196 | - | - | **680,196** | (2,352) | - | - | **(2,352)** |
| Derecognised during the period | (244,255) | (2,570) | (16,907) | **(263,732)** | (1,227) | (47) | (7,778) | **(9,052)** |
| Net repayments | (205,683) | (63,554) | (27,631) | **(296,868)** | - | - | - | **-** |
| Net re-measurement due to stage transfers and risk parameters changes | - | - | - | **-** | (12,726) | (1,135) | (7,955) | **(21,816)** |
| *Movements without impact on credit loss allowance charge for the period:* | | | | | | | | |
| Re-segmentation | 90,053 | 19,704 | 1,865 | **111,622** | 322 | 91 | 1,865 | **2,278** |
| Net write-offs | - | - | (1) | **(1)** | - | - | 900 | **900** |
| Modification | 273 | 563 | 623 | **1,459** | - | - | - | **-** |
| Foreign Exchange movements | (164,035) | (45,374) | (3,504) | **(212,913)** | (529) | (113) | (349) | **(991)** |
| Other movements | - | - | - | **-** | - | - | - | **-** |
| **At 30 June 2021** | **4,898,747** | **825,566** | **127,321** | **5,851,634** | **46,079** | **8,035** | **23,910** | **78,024** |

| *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)** | - | - | - | **-** |
| Re-segmentation | 27,220 | - | - | **27,220** | 91 | - | - | **91** |
| Net Write-offs | - | - | - | **-** | - | - | 125 | **125** |
| Net re-measurement 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** |

## 8 Loans and Advances to Customers (Continued)

| ***Loans to micro, small and medium enterprises*** *In thousands of GEL* | **Gross carrying amount** Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit im-paired) | Total | **Credit loss allowance** Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit im-paired) | Total |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2021** | **2,661,786** | **631,347** | **262,951** | **3,556,084** | **24,490** | **46,852** | **88,567** | **159,909** |
| *Movements with impact on credit loss allowance charge for the period:* | | | | | | | | |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 and Stage 3 to Stage 2) | 243,352 | (243,352) | - | **-** | 12,810 | (12,810) | - | **-** |
| - to defaulted (from Stage 1 and Stage 2 to Stage 3) | (150,051) | 162,650 | (12,599) | **-** | (1,342) | 6,061 | (4,719) | **-** |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | (20,344) | (35,602) | 55,946 | **-** | (4,085) | (5,521) | 9,606 | **-** |
| New originated or purchased | 821,123 | - | - | **821,123** | 9,004 | - | - | **9,004** |
| Derecognised during the period | (200,535) | (35,251) | (9,958) | **(245,744)** | (306) | (1,409) | (4,624) | **(6,339)** |
| Net repayments | (195,150) | (17,612) | (18,640) | **(231,402)** | - | - | - | **-** |
| Net re-measurement due to stage transfers and risk parameters changes | - | - | - | **-** | (18,909) | (4,650) | 11,207 | **(12,352)** |
| *Movements without impact on credit loss allowance charge for the period:* | | | | | | | | |
| Re-segmentation | (58,422) | 9,423 | (1,346) | **(50,345)** | (294) | 521 | (1,768) | **(1,541)** |
| Net Write-offs | - | - | (22,148) | **(22,148)** | - | - | (17,098) | **(17,098)** |
| Modifications | 673 | 210 | 279 | **1,162** | - | - | - | **-** |
| Foreign exchange movements | (76,541) | (13,331) | (7,810) | **(97,682)** | (172) | (179) | (1,359) | **(1,710)** |
| Other movements | 6 | 131 | 3,588 | **3,725** | - | - | - | **-** |
| **At 30 June 2021** | **3,025,897** | **458,613** | **250,263** | **3,734,773** | **21,196** | **28,865** | **79,812** | **129,873** |

| ***Loans to micro, small and medium enterprises*** *In thousands of GEL* | **Gross carrying amount** Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit im-paired) | Total | **Credit loss allowance** 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)** | - | - | - | **-** |
| Re-segmentation | (28,301) | - | - | **(28,301)** | (91) | - | - | **(91)** |
| Net write-offs | - | - | (8,725) | **(8,725)** | - | - | (5,504) | **(5,504)** |
| Net re-measurement 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** |

| ***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 2021** | **1,499,148** | **267,075** | **187,328** | **1,953,551** | **48,240** | **66,330** | **126,984** | **241,554** |
| *Movements with impact on credit loss allowance charge for the period:* | | | | | | | | |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 and Stage 3 to Stage 2) | 109,255 | (109,255) | - | **-** | 16,828 | (16,828) | - | **-** |
| - to defaulted (from Stage 1 and Stage 2 to Stage 3) | (103,770) | 121,644 | (17,874) | **-** | (6,994) | 19,988 | (12,994) | **-** |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | (24,762) | (42,815) | 67,577 | **-** | (9,538) | (13,084) | 22,622 | **-** |
| New originated or purchased | 467,005 | - | - | **467,005** | 21,234 | - | - | **21,234** |
| Derecognised during the period | (127,652) | (13,609) | (15,632) | **(156,893)** | (304) | (3,282) | (8,754) | **(12,340)** |
| Net repayments | (236,450) | (29,243) | (8,317) | **(274,010)** | - | - | - | **-** |
| Net re-measurement due to stage transfers and risk parameters changes | - | - | - | **-** | (24,439) | 650 | 32,539 | **8,750** |
| *Movements without impact on credit loss allowance charge for the period:* | | | | | | | | |
| Re-segmentation | (2,165) | (1,003) | (403) | **(3,571)** | (10) | (25) | (104) | **(139)** |
| Net Write-offs | - | - | (84,905) | **(84,905)** | - | - | (76,815) | **(76,815)** |
| Modification | 1,378 | 223 | 627 | **2,228** | - | - | - | **-** |
| Foreign exchange movements | (9,651) | (984) | (1,439) | **(12,074)** | (25) | (166) | (48) | **(239)** |
| Other movements | 291 | 517 | 302 | **1,110** | - | - | - | **-** |
| **At 30 June 2021** | **1,572,627** | **192,550** | **127,264** | **1,892,441** | **44,992** | **53,583** | **83,430** | **182,005** |

| ***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)** | - | - | - | **-** |
| Re-segmentation | 1,000 | - | - | **1,000** | - | - | - | **-** |
| Net write-offs | - | - | (32,569) | **(32,569)** | - | - | (28,706) | **(28,706)** |
| Net re-measurement 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** |

| ***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 2021** | **2,998,751** | **584,669** | **275,594** | **3,859,014** | **3,336** | **21,322** | **71,068** | **95,726** |
| *Movements with impact on credit loss allowance charge for the period:* | | | | | | | | |
| Transfers: | | | | | | | | |
| - to lifetime (from Stage 1 and Stage 3 to Stage 2) | 323,587 | (323,587) | - | **-** | 6,033 | (6,033) | - | **-** |
| - to defaulted (from Stage 1 and Stage 2 to Stage 3) | (165,197) | 183,768 | (18,571) | **-** | 455 | 4,467 | (4,922) | **-** |
| - to 12-months ECL (from Stage 2 and Stage 3 to Stage 1) | (26,162) | (21,457) | 47,619 | **-** | (3,649) | (1,608) | 5,257 | **-** |
| New originated or purchased | 502,412 | - | - | **502,412** | 1,071 | - | - | **1,071** |
| Derecognised during the period | (64,248) | (35,203) | (17,465) | **(116,916)** | 1,741 | (814) | (6,621) | **(5,694)** |
| Net repayments | (234,579) | (23,060) | (17,314) | **(274,953)** | - | - | - | **-** |
| Net re-measurement due to stage transfers and risk parameters changes | - | - | - | **-** | (6,513) | (6,211) | 10,047 | **(2,677)** |
| *Movements without impact on credit loss allowance charge for the period:* | | | | | | | | |
| Re-segmentation | (29,466) | (28,124) | (116) | **(57,706)** | (18) | (587) | 7 | **(598)** |
| Net write-offs | - | - | (267) | **(267)** | - | - | 675 | **675** |
| Modification | 913 | 72 | 189 | **1,174** | - | - | - | **-** |
| Foreign exchange movements | (94,496) | (11,073) | (11,111) | **(116,680)** | (82) | (185) | (180) | **(447)** |
| **At 30 June 2021** | **3,211,515** | **326,005** | **258,558** | **3,796,078** | **2,374** | **10,351** | **75,331** | **88,056** |

| ***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)** | - | - | - | **-** |
| Re-segmentation | 81 | - | - | **81** | - | - | - | **-** |
| Net write-offs | - | - | (379) | **(379)** | - | - | (115) | **(115)** |
| Net re-measurement 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** |

## 8 Loans and Advances to Customers (Continued)

The credit quality of loans to customers carried at amortised cost is as follows at 30 June 2021:

| *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 | 4,828,391 | 11,095 | - | **4,839,486** |
| - Low | 68,770 | 705,079 | - | **773,849** |
| - Moderate | 1,586 | 109,392 | - | **110,978** |
| - High | - | - | - | **-** |
| - Default | - | - | 127,321 | **127,321** |
| **Gross carrying amount** | **4,898,747** | **825,566** | **127,321** | **5,851,634** |
| Credit loss allowance | (46,079) | (8,035) | (23,910) | **(78,024)** |
| **Carrying amount** | **4,852,668** | **817,531** | **103,411** | **5,773,610** |
| ***Consumer loans risk category*** | | | | |
| - Very low | 1,023,448 | 17,059 | 1,076 | **1,041,583** |
| - Low | 461,524 | 36,248 | - | **497,772** |
| - Moderate | 87,655 | 110,724 | - | **198,379** |
| - High | - | 28,519 | - | **28,519** |
| - Default | - | - | 126,188 | **126,188** |
| **Gross carrying amount** | **1,572,627** | **192,550** | **127,264** | **1,892,441** |
| Credit loss allowance | (44,992) | (53,583) | (83,430) | **(182,005)** |
| **Carrying amount** | **1,527,635** | **138,967** | **43,834** | **1,710,436** |
| ***Mortgage loans risk category*** | | | | |
| - Very low | 2,877,349 | 18,835 | 912 | **2,897,096** |
| - Low | 307,024 | 193,247 | - | **500,271** |
| - Moderate | 27,142 | 99,408 | - | **126,550** |
| - High | - | 14,515 | - | **14,515** |
| - Default | - | - | 257,646 | **257,646** |
| **Gross carrying amount** | **3,211,515** | **326,005** | **258,558** | **3,796,078** |
| Credit loss allowance | (2,374) | (10,351) | (75,331) | **(88,056)** |
| **Carrying amount** | **3,209,141** | **315,654** | **183,227** | **3,708,022** |
| ***Loans to MSME risk category*** | | | | |
| - Very low | 2,475,428 | 73,393 | 8,826 | **2,557,647** |
| - Low | 538,428 | 275,104 | - | **813,532** |
| - Moderate | 12,041 | 93,130 | - | **105,171** |
| - High | - | 16,986 | - | **16,986** |
| - Default | - | - | 241,437 | **241,437** |
| **Gross carrying amount** | **3,025,897** | **458,613** | **250,263** | **3,734,773** |
| Credit loss allowance | (21,196) | (28,865) | (79,812) | **(129,873)** |
| **Carrying amount** | **3,004,701** | **429,748** | **170,451** | **3,604,900** |

## 8 Loans and Advances to Customers (Continued)

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2020:

| | 31 December 2020 | | | |
|---|---|---|---|---|
| *in thousands of GEL* | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit impaired) | Total |
| ***Corporate loans risk category*** | | | | |
| - Very low | 4,324,191 | 6,178 | – | 4,330,369 |
| - Low | 248,246 | 913,832 | – | 1,162,078 |
| - Moderate | 1,697 | 35,177 | – | 36,874 |
| - Default | – | – | 161,428 | 161,428 |
| **Gross carrying amount** | **4,574,134** | **955,187** | **161,428** | **5,690,749** |
| Credit loss allowance | (53,995) | (8,194) | (45,452) | (107,641) |
| **Carrying amount** | **4,520,139** | **946,993** | **115,976** | **5,583,108** |
| ***Consumer loans risk category*** | | | | |
| - Very low | 1,010,723 | 20,041 | – | 1,030,764 |
| - Low | 453,899 | 64,950 | – | 518,849 |
| - Moderate | 91,937 | 159,726 | – | 251,663 |
| - High | – | 22,579 | – | 22,579 |
| - Default | – | – | 187,730 | 187,730 |
| **Gross carrying amount** | **1,556,559** | **267,296** | **187,730** | **2,011,585** |
| Credit loss allowance | (48,372) | (66,352) | (127,101) | (241,825) |
| **Carrying amount** | **1,508,187** | **200,944** | **60,629** | **1,769,760** |
| ***Mortgage loans risk category*** | | | | |
| - Very low | 2,852,661 | 97,936 | – | 2,950,597 |
| - Low | 186,597 | 334,579 | – | 521,176 |
| - Moderate | 28,822 | 154,372 | – | 183,194 |
| - High | – | 7,409 | – | 7,409 |
| - Default | – | – | 279,726 | 279,726 |
| **Gross carrying amount** | **3,068,080** | **594,296** | **279,726** | **3,942,102** |
| Credit loss allowance | (3,371) | (21,516) | (71,983) | (96,870) |
| **Carrying amount** | **3,064,709** | **572,780** | **207,743** | **3,845,232** |
| ***Loans to MSME risk category*** | | | | |
| - Very low | 2,252,448 | 145,445 | – | 2,397,893 |
| - Low | 395,733 | 348,147 | – | 743,880 |
| - Moderate | 13,605 | 121,925 | – | 135,530 |
| - High | – | 15,830 | – | 15,830 |
| - Default | – | – | 262,951 | 262,951 |
| **Gross carrying amount** | **2,661,786** | **631,347** | **262,951** | **3,556,084** |
| Credit loss allowance | (24,490) | (46,853) | (88,567) | (159,910) |
| **Carrying amount** | **2,637,296** | **584,494** | **174,384** | **3,396,174** |

The contractual amounts outstanding on loans to customers that have been written off during the period partially or fully, but are still subject to enforcement activity was principal amount GEL 6.6 million (31 December 2020: GEL 48 million), accrued interest GEL 1.6 million (31 December 2020: GEL 11 million) and accrued off balance sheet penalty GEL 111 million (31 December 2020: GEL 135 million).

## 8 Loans and Advances to Customers (Continued)

The table below presents the economic sector risk concentrations within the customer loan portfolio:

| *In thousands of GEL* | 30 June 2021 Amount | 30 June 2021 % | 31 December 2020 Amount | 31 December 2020 % |
|---|---|---|---|---|
| Individual | 5,817,104 | 38% | 5,948,346 | 39% |
| Real Estate | 1,462,407 | 10% | 1,460,821 | 10% |
| Hospitality, Restaurants & Leisure | 1,406,877 | 9% | 1,368,887 | 9% |
| Energy & Utilities | 1,092,806 | 7% | 1,078,504 | 7% |
| Food Industry | 715,320 | 5% | 898,597 | 6% |
| Trade | 745,773 | 5% | 708,559 | 4% |
| Agriculture | 704,309 | 5% | 667,904 | 4% |
| Construction | 733,874 | 5% | 642,024 | 4% |
| Healthcare | 383,879 | 2% | 369,645 | 2% |
| Services | 299,760 | 2% | 268,982 | 2% |
| Automotive | 305,644 | 2% | 263,276 | 2% |
| Metals and Mining | 191,369 | 1% | 229,368 | 2% |
| Pawn Shops | 157,476 | 1% | 168,571 | 1% |
| Transportation | 159,820 | 1% | 159,857 | 1% |
| Financial Services | 109,928 | 1% | 78,923 | 1% |
| Communication | 42,724 | 0% | 46,406 | 0% |
| Other | 945,856 | 6% | 841,850 | 6% |
| **Total gross loans and advances to customers** | **15,274,926** | **100%** | **15,200,520** | **100%** |

As 30 June 2021, the Group had 314 borrowers (31 December 2020: 307 borrowers) with the aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 5,535,718 thousand (31 December 2020: GEL 5,598,041 thousand) or 36.3% of the gross loan portfolio (31 December 2020: 36.8%).

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.

In March 2021 the Bank reviewed its definition of secured and the types of collateral and the haircuts were modified to bring them into line with the IFRS loan loss provisioning methodology.

The financial effect of collateral is presented by disclosing the collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the assets' carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the assets' carrying value ("under-collateralised assets").

The following table illustrates the effect of collateral as 30 June 2021:

| | Over-collateralised Assets | | Under-collateralised Assets | |
|---|---|---|---|---|
| *In thousands of GEL* | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Corporate loans | 3,614,712 | 7,994,167 | 2,236,922 | 878,015 |
| Consumer loans | 636,027 | 1,731,923 | 1,256,414 | 23,490 |
| Mortgage loans | 3,448,586 | 7,367,097 | 347,492 | 131,231 |
| Loans to micro, small and medium enterprises | 2,829,915 | 6,571,834 | 904,858 | 364,678 |
| **Total** | **10,529,240** | **23,665,021** | **4,745,686** | **1,397,414** |

## 8 Loans and Advances to Customers (Continued)

The following table illustrated the effect of collateral as 31 December 2020:

| | Over-collateralised Assets | | Under-collateralised Assets | |
|---|---|---|---|---|
| *In thousands of GEL* | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Corporate loans | 4,603,143 | 9,630,768 | 1,087,606 | 477,701 |
| Consumer loans | 869,317 | 2,231,778 | 1,142,268 | 20,474 |
| Mortgage loans | 3,703,164 | 7,915,172 | 238,938 | 158,292 |
| Loans to micro, small and medium enterprises | 3,114,829 | 7,102,534 | 441,255 | 157,047 |
| **Total** | **12,290,453** | **26,880,252** | **2,910,067** | **813,514** |

The effect of collateral by classes as at 30 June 2021[33]:

| | Over-collateralised Assets | | Under-collateralised Assets | |
|---|---|---|---|---|
| ***in thousands of GEL*** | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Cash Cover | 217,499 | 167,808 | 133,111 | 133,072 |
| Gold | 115,237 | 142,999 | 23,043 | 23,043 |
| Inventory | 320,546 | 1,121,494 | 87,815 | 87,786 |
| Real Estate | 9,875,958 | 22,232,720 | 1,155,410 | 1,153,513 |
| Unsecured | - | - | 3,346,307 | - |
| **Total** | **10,529,240** | **23,665,021** | **4,745,686** | **1,397,414** |

The effect of collateral by classes as at 31 December 2020:

| | Over-collateralised Assets | | Under-collateralised Assets | |
|---|---|---|---|---|
| ***in thousands of GEL*** | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Cash Cover | 332,438 | 358,847 | 12,937 | 39,109 |
| Gold | 115,139 | 158,008 | 37,856 | 37,946 |
| Inventory | 753,658 | 2,149,849 | 24,536 | 24,498 |
| Other | 137,749 | 849,249 | 7,960 | 20,313 |
| Real Estate | 10,697,040 | 23,217,956 | 428,092 | 395,398 |
| Third party guarantees | 254,429 | 146,343 | 310,272 | 296,250 |
| Unsecured | - | - | 2,088,414 | - |
| **Total** | **12,290,453** | **26,880,252** | **2,910,067** | **813,514** |

The financial effect of collateral is determined by comparing the fair value of collateral to outstanding gross loans and advances in the reporting date.

[33] Loan collateral secured/unsecured definition has changed since year end 2020. June 2021 schedules correspond to numbers after changes.

## 8 Loans and Advances to Customers (Continued)

Stage 3 loans presented by segments and collateral classes as at 30 June 2021 are the following[34]:

| *in thousands of GEL* | Corporate | Consumer | Mortgage | Loans to micro, small and medium enterprises |
|---|---|---|---|---|
| Cash Cover | 20 | 39 | 39 | 87 |
| Gold | - | 582 | - | 311 |
| Inventory | 6,472 | 12 | - | 1,897 |
| Real Estate | 101,994 | 57,298 | 249,552 | 219,829 |
| Unsecured | 18,834 | 69,334 | 8,967 | 28,140 |
| **Total** | **127,320** | **127,265** | **258,558** | **250,264** |

Stage 3 loans presented by segments and collateral classes as at 31 December 2020 are the following:

| *in thousands of GEL* | Corporate | Consumer | Mortgage | Loans to micro, small and medium enterprises |
|---|---|---|---|---|
| Cash Cover | 21 | 36 | 38 | 47 |
| Gold | - | 1,717 | - | 430 |
| Inventory | 15,991 | 8,909 | 185 | 4,250 |
| Real Estate | 97,824 | 65,645 | 273,577 | 231,925 |
| Third Party Guarantees | 5,013 | 968 | 2,308 | 7,347 |
| Unsecured | 42,579 | 110,455 | 3,618 | 18,898 |
| Other | - | - | - | 54 |
| **Total** | **161,428** | **187,730** | **279,726** | **262,951** |

The gross carrying amount of loans by stages, that have been modified since initial recognition and for which stages have changed during the reporting period:

| *in thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Stage 1 | 71,686 | 737,197 |
| Stage 2 | 270,499 | 1,602,759 |
| Stage 3 | 578,999 | 293,205 |
| **Total** | **921,184** | **2,633,161** |

At the central level a specific unit manages collateral to ensure that they serve as an adequate mitigation for credit risk management purposes. In line with the Group's internal policies, collateral provided to loans are evaluated by the internal appraisal group (external reviewers are used in case of loans to related parties or specific cases when complex objects are appraised). The internal appraisal group is part of the collateral management unit and, in order to ensure adequate and objective appraisal procedures, it is independent from the loan granting process. Real estate collateral of significant value is re-evaluated annually by internal appraisers. Statistical methods are used to monitor the value of real estate collateral that are of non-significant value and other types of collateral such as movable assets and precious metals.

In some instances, where the discounted recovery from the liquidation of collateral (adjusted for the liquidity haircut and discounted for the period of expected selling time) is larger than the estimated exposure at default, no credit loss allowance is recognised. Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan’s carrying value. The values of third-party guarantees in the tables above amounted to GEL 653,856 thousand and GEL 564,701 thousand, as of 30 June 2021 and 31 December 2020, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Information on related party balances is disclosed in Note 28.

For the year ended 30 June 2021 net (losses)/ gains recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 8,382,717 thousand (30 June 2020: GEL 3,081,142 thousand).

[34] Loan collateral secured/unsecured definition has changed since year end 2020. June 2021 schedules correspond to numbers after changes.

## 9 Investment Securities Measured at Fair Value through Other Comprehensive Income

| *in thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Corporate bonds | 668,132 | 666,133 |
| Ministry of Finance of Georgia treasury bills | 1,354,972 | 839,839 |
| Ministry of Finance of Uzbekistan treasury bills | 1,807 | 1,951 |
| Certificates of deposit of the National Bank of Georgia | – | 21,687 |
| Less: credit loss allowance by stages | (3,582) | (3,258) |
| Stage 1 | (3,582) | (3,258) |
| Stage 2 | – | – |
| Stage 3 | – | – |
| **Total debt securities** | **2,021,329** | **1,526,352** |
| Corporate shares – unquoted | 1,056 | 916 |
| **Total investment securities measured at fair value through other comprehensive income** | **2,022,385** | **1,527,268** |

All debt securities in 2021 and 2020 except for corporate bonds and Uzbekistan treasury bills are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB with negative outlook (as affirmed by Fitch Rating in February 2021). Latest country rating for Uzbekistan stands at BB-. 67% of corporate bonds are issued by triple A rated international financial institutions, 33% of corporate bonds are issued at BB- rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

The Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term (for more details please refer to note 2).

As at 30 June 2021 investment securities measured at fair value through other comprehensive income carried at GEL 733,306 thousand have been pledged with local banks or financial institutions as a collateral with respect to other borrowed funds (2020: GEL 699,483 thousand).

As at 30 June 2021 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

| *in thousands of GEL* | Nature of business | Country of registration | 30 June 2021 | 31 December 2020 |
|---|---|---|---|---|
| GRDC N.V | Property development | Hilversum, Netherlands | 365 | 365 |
| Other | Various | Various | 691 | 551 |
| **Total corporate shares** | | | **1,056** | **916** |

The movements in investment securities measured at fair value through other comprehensive income are as follows:

| *in thousands of GEL* | Note | 30 June 2021 | 30 June 2020 |
|---|---|---|---|
| **Carrying amount as of 31 December 2020** | | **1,527,268** | **986,730** |
| Transfer from investment securities measured at amortised cost due to changes in business model[35] | | 1,059,946 | - |
| Revaluation at transfer date | | 26,062 | - |
| **Carrying amount as of 1 January** | | **2,613,276** | **986,730** |
| Transfer from investment securities measured at amortised cost | | - | 15,000 |
| Purchases | | 196,871 | 251,484 |
| Disposals | | (402,255) | (67,301) |
| Redemption at maturity | | (355,328) | (113,401) |
| Revaluation | | (34,694) | 4,984 |
| Interest income accrued | 20 | 98,500 | 47,406 |
| Interest income received | | (89,708) | (43,871) |
| Effect of translation to presentation currency | | (3,953) | 3,066 |
| Change in credit loss allowance | | (324) | (1,577) |
| **Carrying amount as of period end** | | **2,022,385** | **1,082,520** |

[35] refer to note 2 for detailed explanation of changes in business model

## 10 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 2020** | **162,637** | **89,890** | **82,201** | **334,728** | **167,597** | **502,325** |
| Additions | 1,101 | 14,831 | 9,702 | **25,634** | 37,417 | **63,051** |
| 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 at 30 June 2020 | (46,069) | (151,909) | - | **(197,978)** | (83,567) | **(281,545)** |
| **Carrying amount at 1 January 2021** | **163,747** | **105,453** | **103,756** | **372,956** | **239,523** | **612,479** |
| Additions | 4,605 | 16,364 | 6,869 | **27,838** | 60,811 | **88,649** |
| Transfers | 2,708 | (32) | (2,708) | **(32)** | 32 | **-** |
| Disposals | (16,306) | (4,975) | (1,649) | **(22,930)** | (561) | **(23,491)** |
| Transfer to financial leases and repossessed assets | (614) | (1,887) | - | **(2,501)** | - | **(2,501)** |
| (Impairment charge)/reversal of impairment to profit or loss | - | (3) | - | **(3)** | - | **(3)** |
| Depreciation/amortisation charge | (2,789) | (11,226) | - | **(14,015)** | (15,164) | **(29,179)** |
| Elimination of accumulated depreciation/amortisation on disposals | 7,141 | 3,385 | - | **10,526** | 9 | **10,535** |
| Effect of translation to presentation currency Cost | (58) | (75) | - | **(133)** | (134) | **(267)** |
| Effect of translation to presentation currency accumulated depreciation | 44 | 159 | - | **203** | 39 | **242** |
| **Carrying amount at 30 June 2021** | **158,478** | **107,163** | **106,268** | **371,909** | **284,555** | **656,464** |
| Cost at 30 June 2021 | 202,731 | 273,380 | 106,268 | **582,379** | 396,952 | **979,331** |
| Accumulated depreciation/amortisation including accumulated impairment loss at 30 June 2021 | (44,253) | (166,217) | - | **(210,470)** | (112,397) | **(322,867)** |

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

On 18 June 2021, the Group sold land and buildings, where some of its back office functions is currently located, to IG Development LLC for cash consideration of USD 25 million. USD 5 million (GEL 16.5 million) has already been received, while the remaining USD 20 million (GEL 63.2 million) will be received until 30 April 2022. Selling of those assets was part of the Group's plan to gradually prepare for relocation to new headquarter, which is in the process of construction. Under the existing plan the Group will gradually discharge the occupied part of the buildings up until 30 April 2022 and staff will be distributed to existing offices before the new headquarter will be completed. Net carrying amount of disposed properties was GEL 37,416 thousand, out of which net balance disposed from premises and equipment were GEL 5,442 thousand, while the remaining part was disposed from investment property. Net gain on disposal from the sale was recognised as part of other operating income in the condensed consolidated interim statement of profit or loss in the amount of GEL 26,294 thousand.

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.

## 11 Due to Credit Institutions

| *In thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| **Due to other banks** | | |
| Correspondent accounts and overnight placements | 78,617 | 43,298 |
| Deposits from banks | 76,863 | 97,496 |
| **Total due to other banks** | **155,480** | **140,794** |
| **Other borrowed funds** | | |
| Borrowings from foreign banks and international financial institutions | 1,773,377 | 2,370,656 |
| Borrowings from other financial institutions | 59,308 | 58,949 |
| Borrowings from other local banks and financial institutions | 8,137 | 32,684 |
| National Bank of Georgia | 1,486,528 | 1,883,290 |
| **Total other borrowed funds** | **3,327,350** | **4,345,579** |
| **Total amounts due to credit institutions** | **3,482,830** | **4,486,373** |

As of 30 June 2021 for the purposes of maturity analysis of financial liabilities (Note 25) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

## 12 Customer Accounts

| *In thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| **State and public organisations** | | |
| - Current/settlement accounts | 546,104 | 504,019 |
| - Term deposits | 318,318 | 590,426 |
| **Other legal entities** | | |
| - Current/settlement accounts | 3,643,908 | 3,490,836 |
| - Term deposits | 911,195 | 722,710 |
| **Individuals** | | |
| - Current/demand accounts | 3,723,253 | 3,487,017 |
| - Term deposits | 3,727,640 | 3,777,720 |
| **Total customer accounts** | **12,870,418** | **12,572,728** |

State and public organisations include government owned profit orientated businesses.

## 12 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

| | 30 June 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| *In thousands of GEL* | **Amount** | **%** | **Amount** | **%** |
| Individual | 7,450,894 | 58% | 7,264,737 | 58% |
| Financial services | 1,051,494 | 8% | 709,943 | 6% |
| Trade | 953,248 | 7% | 873,995 | 7% |
| Services | 569,059 | 4% | 526,227 | 4% |
| Construction | 502,976 | 4% | 610,321 | 5% |
| Government sector | 470,491 | 4% | 647,856 | 5% |
| Real estate | 336,247 | 3% | 323,547 | 3% |
| Energy & utilities | 299,352 | 2% | 384,660 | 3% |
| Transportation | 296,701 | 2% | 332,850 | 2% |
| Healthcare | 164,026 | 1% | 131,936 | 1% |
| Hospitality & leisure | 113,198 | 1% | 99,770 | 1% |
| Agriculture | 58,104 | 1% | 58,005 | 0% |
| Metals and mining | 23,446 | 0% | 18,458 | 0% |
| Other | 581,182 | 5% | 590,423 | 5% |
| **Total customer accounts** | **12,870,418** | **100%** | **12,572,728** | **100%** |

As at 30 June 2021 the Group had 461 customers (31 December 2020: 452 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 5,723,401 thousand (31 December 2020: GEL 5,569,608 thousand) or 43.7% of total customer accounts (31 December 2020: 44.0%).

As at 30 June 2021 included in customer accounts are deposits of GEL 9,579 thousand and GEL 73,634 thousand (31 December 2020: GEL 4,903 thousand and GEL 94,348 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 25. As at 30 June 2021, deposits held as collateral for loans to customers amounted to GEL 499,833 thousand (31 December 2020: GEL 512,637 thousand).

Refer to Note 27 for the disclosure of the fair value of customer accounts. Information on related party balances is disclosed in Note 28.

## 13 Provisions for Performance Guarantees, Credit Related Commitment 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 2021** | **5,603** | **4,247** | **15,485** | **25,335** |
| Charges less releases recorded in profit or loss | (1,566) | (364) | (1,682) | **(3,612)** |
| Effect of translation to presentation currency | (196) | (92) | - | **(288)** |
| **Carrying amount at 30 June 2021** | **3,841** | **3,791** | **13,803** | **21,435** |

| *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** | **5,966** | **7,208** | **12,384** | **25,558** |

***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, for undrawn exposures the Group distinguishes between revocable and irrevocable loan commitments. For revocable commitments, the Bank does not create an impairment allowance. As for the irrevocable undisbursed exposures the Group estimates utilization parameter (which represents expected limit utilization percentage conditional on the default event) in order to convert off-balance part of the exposure to on-balance.

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

Charges 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 1,691 thousand (30 June 2020: GEL 1,335 thousand) that are included in net claims incurred. Additions less releases recorded in profit or loss for provision for impairment of credit related commitments include provision for insurance payables in the amount of GEL 9 thousand (June 2020: recovery of GEL 77 thousand), that are included in charges less releases recorded in profit or loss for "Other" provision.

## 14 Debt Securities in Issue

| *in thousands of GEL* | Currency | Carrying amount as of 30 June 2021 | Maturity Date | Coupon rate | Effective interest rate |
|---|---|---|---|---|---|
| Bonds issued on Irish Stock Exchange | USD | 934,513 | 6/19/2024 | 5.8% | 6.4% |
| Bonds issued on Irish Stock Exchange | USD | 398,442 | 10/3/2024 | 10.8% | 11.4% |
| Private placement | USD | 42,487 | 5/27/2023 | 8.2% | 9.0% |
| Private placement | USD | 31,654 | 3/19/2023 | 6.5% | 7.1% |
| Bonds issued on Georgian Stock Exchange | GEL | 38,518 | 3/20/2023 | TIBR3M+3.25% | 12.5% |
| **Total debt securities in issue** | | **1,445,614** | | | |

## 14 Debt Securities in Issue (Continued)

| *in thousands of GEL* | Currency | Carrying amount as of 31 December 2020 | Maturity Date | Coupon rate | Effective interest rate |
|---|---|---|---|---|---|
| Bonds issued on Irish Stock Exchange | USD | 966,793 | 6/19/2024 | 5.8% | 6.4% |
| Bonds issued on Irish Stock Exchange | USD | 414,216 | 10/3/2024 | 10.8% | 11.4% |
| Private placement | USD | 44,467 | 5/27/2023 | 8.2% | 9.0% |
| Private placement | USD | 32,517 | 3/19/2023 | 6.5% | 7.1% |
| Bonds issued on Georgian Stock Exchange | GEL | 38,504 | 3/20/2023 | TIBR3M+3.25% | 12.5% |
| **Total debt securities in issue** | | **1,496,497** | | | |

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.

## 15 Subordinated Debt

As 30 June 2021, subordinated debt comprised of:

| *In thousands of GEL* | Grant Date | Maturity Date | Currency | Outstanding amount in original currency | Outstanding amount in GEL |
|---|---|---|---|---|---|
| BlueOrchard Microfinance Fund | 14-Dec-18 | 14-Dec-25 | USD | 14,954 | 47,258 |
| BlueOrchard Microfinance Fund | 14-Dec-18 | 14-Dec-28 | USD | 14,944 | 47,226 |
| ResponsAbility SICAV (Lux) - Financial Inclusion Fund | 30-Nov-18 | 30-Nov-28 | USD | 3,114 | 9,840 |
| European Fund for Southeast Europe | 18-Dec-15 | 16-Dec-30 | USD | 7,593 | 23,997 |
| European Fund for Southeast Europe | 15-Mar-16 | 17-Mar-31 | USD | 7,591 | 23,991 |
| European Fund for Southeast Europe | 21-Dec-18 | 21-Dec-28 | USD | 20,074 | 63,439 |
| Green for Growth Fund | 18-Dec-15 | 16-Dec-30 | USD | 15,187 | 47,996 |
| Micro and SME Finance Leaders | 30-Nov-18 | 30-Nov-28 | USD | 1,004 | 3,174 |
| Global Climate Partnership Fund | 20-Nov-18 | 20-Nov-28 | USD | 25,090 | 79,292 |
| ResponsAbility SICAV (Lux) Micro and SME Finance Fund | 30-Nov-18 | 30-Nov-28 | USD | 5,927 | 18,733 |
| Asian Development Bank | 18-Oct-16 | 31-Dec-26 | USD | 50,447 | 159,426 |
| Private Lenders | 8-Jun-17 | 19-Dec-24 | USD | 25,212 | 79,677 |
| Subordinated Bond (Private lender) | 31-Aug-18 | 25-Jan-23 | USD | 10,104 | 31,932 |
| **Total subordinated debt** | | | | | **635,981** |

## 15 Subordinated Debt (Continued)

As of 31 December 2020, subordinated debt comprised of:

| *In thousands of GEL* | Grant Date | Maturity Date | Currency | Outstanding amount in original currency | Outstanding amount in GEL |
|---|---|---|---|---|---|
| KfW | 10-June-14 | 8-May-21 | GEL | 6,161 | 6,161 |
| KfW | 4-May 15 | 8-May-21 | GEL | 6,737 | 6,737 |
| Green for Growth Fund | 18-Dec-15 | 18-Dec-25 | USD | 15,244 | 49,950 |
| European Fund for Southeast Europe | 21-Dec-18 | 21-Dec-28 | USD | 20,079 | 65,789 |
| European Fund for Southeast Europe | 18-Dec-15 | 16-Dec-30 | USD | 7,633 | 25,010 |
| European Fund for Southeast Europe | 15-Mar-16 | 17-Mar-31 | USD | 7,631 | 25,004 |
| Private Lenders | 8-Jun-17 | 19-Dec-24 | USD | 25,217 | 82,628 |
| Subordinated Bond (Private lender) | 31-Aug-18 | 25-Jan-23 | USD | 10,102 | 33,098 |
| BlueOrchard Microfinance Fund | 14-Dec-18 | 14-Dec-25 | USD | 14,949 | 48,983 |
| BlueOrchard Microfinance Fund | 14-Dec-18 | 14-Dec-28 | USD | 14,941 | 48,956 |
| Asian Development Bank | 18-Oct-16 | 31-Dec-26 | USD | 50,438 | 165,266 |
| ResponsAbility SICAV (Lux) Micro and SME Finance Fund | 30-Nov-18 | 30-Nov-28 | USD | 5,930 | 19,430 |
| Micro and SME Finance Leaders | 30-Nov-18 | 30-Nov-28 | USD | 1,005 | 3,292 |
| Global Climate Partnership Fund | 20-Nov-18 | 20-Nov-28 | USD | 25,096 | 82,230 |
| ResponsAbility SICAV (Lux) - Financial Inclusion Fund | 30-Nov-18 | 30-Nov-28 | USD | 3,115 | 10,206 |
| **Total subordinated debt** | | | | | **672,740** |

The debt ranks after all other creditors in case of liquidation.

Refer to Note 27 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 28.

## 16 Share Capital

| *In thousands of GEL except for number of shares* | Number of ordinary shares | Share capital |
|---|---|---|
| **As of 1 January 2020** | **55,155,896** | **1,682** |
| **As of 31 December 2020** | **55,155,896** | **1,682** |
| **As of 30 June 2021** | **55,155,896** | **1,682** |

As 30 June 2021 the total authorised number of ordinary shares was 55,155,896 shares (31 December 2020: 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.

Part of the shares are held by employee benefit trust (EBT) for the purpose of future employee share based payments plan. The number of shares held by trust as at 30 June 2021 comprised 641,391 shares (31 December 2020: 778,183 shares). The EBT has waived its rights to receive dividends on such shares.

## 17 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 share based payment scheme for middle management and other eligible employees continues under existing terms for 2020-2021.

**December 2018 arrangements:**

A new compensation system was approved by shareholders at the AGM on 21 May 2018 and came into effect on 1 January 2019 and it covers the period 2019-2021 inclusive. On 28 December 2018, the Board of Directors approved the following details for this new compensation schemes for the top management and the Group considers that as a grant date. All the top management schemes are equity settled and accounted respectively.

**Deferred share salary plan**

Part of the top management salary is paid with shares with the objective of closely promoting the long-term success of the Group and aligning senior executive directors' and shareholders' interests. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year) and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Where applicable, deferred share salary is paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to 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).

**17 Share Based Payments (Continued)**

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

**Deferred Bonus plan**

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the performance year): and the exact date is determined by the Board. 50% of the shares have 1 year deferral period and the remaining 50% is deferred for 2 years from the delivery date. The shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.

Annual KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year and approved by the Board. To the extent that the KPIs are achieved, the Remuneration Committee may recommend to the Board whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs with their specific weightings and targets is disclosed in the published annual report. Awards are subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee can recommend to the Board that some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).

The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.

**Long Term Incentive Plan (LTIP)**

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align the Group's and the Bank's executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet rolling performance conditions over the 3 year performance period.

More details about the LTIP and share based payments are given in Remuneration Committee report for FY 2020 available publicly.

Tabular information on the schemes is given below:

## 17 Share Based Payments (Continued)

| In GEL except for number of shares | 30 June 2021 | 31 December 2020 |
|---|---|---|
| **Number of unvested shares at the beginning of the period** | **3,028,818** | **3,141,541** |
| **Number of shares granted** | **759,112*** ** | **528,325*** ** |
| *Number of shares granted - Middle management, subsidiaries' management and other eligible employees* | *759,112****** | *528,325****** |
| **Number of shares granted** | **759,112*** ** | **528,325*** ** |
| **Change in estimates of number of shares expected to be granted**** | | |
| *Change in estimates for 2020 award for Deferred salary, 2021 awards for Deferred bonus and LTIP* | - | 479,580 |
| *Management forfeiture of rights for 2020 bonus* | - | (428,451) |
| **Change in estimates of number of shares expected to be granted**** | | **51,129** |
| Change in estimate of number of shares expected to vest based on performance conditions - 2019 performance | - | (71,847) |
| **Number of shares vested** | | |
| *2016 year award – 80% vesting* | - | (413,544) |
| *2017 year award – 10% vesting* | - | (105,527) |
| *2017 year award – 80% vesting* | (451,251) | - |
| *2018 year award – 10% vesting* | (57,102) | (101,259) |
| *2019 year award - MM 33% vesting* | (47,401) | - |
| *2019 year award – TM 50% vesting* | (137,779) | - |
| **Number of shares vested** | **(693,533)** | **(620,330)** |
| **Number of unvested shares at the end of the period** | **3,094,397** | **3,028,818** |
| Value at grant date per share according to June 2015 scheme (GEL) | 25 | 25 |
| Value at grant date per share (GEL) middle management and other eligible employees plan | 50 | 50 |
| Value at grant date per share (GEL) Deferred share salary plan | 50 | 50 |
| Value at grant date per share (GEL) Deferred bonus plan | 50 | 50 |
| Value at grant date per share (GEL) LTIP* | 50 | 50 |
| Expense on equity-settled part (GEL thousand) | 11,361 | 19,448 |
| Expense on cash-settled part (GEL thousand) | 2,255 | (950) |
| **Expense recognised as staff cost during the period (GEL thousand)** | **13,616** | **18,498** |

*Grant date for LTIP plan has been determined for the first award tranche only, which is planned in 2022. For remaining tranches expense is accrued based on estimated fair value during the future grant date.

** The maximum amount is fixed for deferred share compensations for top management, the exact number will be calculated as per policy.

*** Represents shares granted to subsidiaries' management.

Liability in respect of the cash-settled part of the award amounted to GEL 2,255 thousand as 30 June 2021 (31 December 2020: GEL 2,000 thousand). Tax part of the new bonus system for the top management is accounted under equity settled basis.

## 17 Share Based Payments (Continued)

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.

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 2021 the share number held by Trustee was 641,391 (31 December 2020: 778,183), which represents 1.2% of total outstanding shares (31 December 2020: 1.4%).

## 18 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 2021** | **30 June 2020** |
|---|---|---|
| Profit for the period attributable to the owners of the Bank | 399,168 | 67,625 |
| Weighted average number of ordinary shares in issue | 54,451,777 | 54,421,866 |
| **Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)** | **7.33** | **1.24** |

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Group by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year. Ordinary shares with dilutive potential represent those shares, that were granted to the participants of the share based payments scheme and are not yet distributed

| *In thousands of GEL except for number of shares* | **30 June 2021** | **30 June 2020** |
|---|---|---|
| Profit for the period attributable to the owners of the Bank | 399,168 | 67,625 |
| Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period | 55,156,405 | 54,950,082 |
| **Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)** | **7.24** | **1.23** |

## 19 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 2021 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 99.6 million of loans and GEL 64.7 million of customer accounts were transferred from MSME to Corporate segment. Wealth Management business with high net worth individuals has been transferred from retail to corporate segment due to changes in segment definitions. Other transfers between segments were primarily due to changes in client size and specifications compared to prior period. In the tables below is disclosed the information as of 30 June 2021 both with and without re-segmentation effect.

The operating segments according to the definition are determined as follows:

- Corporate (CIB) – a legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or which has been granted facilities of more than GEL 5.0 million. Corporate segment also includes wealth management private banking services to high net worth individuals, with the threshold of USD 250,000 on assets under management (AUM). Some other business customers may also be assigned to the corporate segment on a discretionary basis.
- Retail – non-business individual customers;
- MSME – business customers who are not included in the corporate segment; or individual customers of the fully-digital bank, Space;
- 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.

The Board of Directors assesses the performance of the operating segments based on a measure of profit before income tax.

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in as 30 June 2021 and 31 December 2020.

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 25.

A summary of the Group's reportable segments as 30 June 2021 with updated segmentation and also without re-segmentation effect (for comparative reasons) and 30 June 2020 is provided below.

## 19 Segment Analysis (Continued)

Segment disclosure below is prepared with the effect of 2021 re-segmentation as described above.

| *In thousands of GEL* | Corporate | Retail | MSME | Corporate centre and other operations | Total |
|---|---|---|---|---|---|
| **30 June 2021** | | | | | |
| – Interest income | 271,402 | 321,483 | 181,002 | 125,298 | **899,185** |
| – Interest expense | (121,201) | (63,061) | (5,931) | (254,243) | **(444,436)** |
| – Net gains on currency swaps | - | - | - | 13,149 | **13,149** |
| – Inter-segment interest income/(expense) | 24,865 | (72,867) | (68,593) | 116,595 | **-** |
| – **Net interest income** | **175,066** | **185,555** | **106,478** | **799** | **467,898** |
| – Fee and commission income | 46,861 | 101,851 | 23,323 | 14,118 | **186,153** |
| – Fee and commission expense | (34,754) | (24,364) | (14,698) | (4,036) | **(77,852)** |
| – **Net Fee and commission income** | **12,107** | **77,487** | **8,625** | **10,082** | **108,301** |
| – Insurance profit | - | - | - | 9,873 | **9,873** |
| – Net gains/(loss) from derivatives, foreign currency operations and translation | 22,576 | 14,201 | 11,730 | 11,677 | **60,184** |
| – Gains less losses from disposal of investment securities measured at FVOCI | 515 | - | - | 6,526 | **7,041** |
| – Other operating income | 1,642 | 3,511 | 726 | 31,604 | **37,483** |
| – Share of profit of associates | - | - | - | 596 | **596** |
| – **Other operating non-interest income and insurance profit** | **24,733** | **17,712** | **12,456** | **60,276** | **115,177** |
| – Credit loss allowance for loans to customers | 33,220 | (10,344) | 9,687 | - | **32,563** |
| – Credit loss allowance reversal/ (credit loss allowance) for performance guarantees and credit related commitments | 1,599 | 405 | (74) | - | **1,930** |
| – Credit loss allowance for net investments in lease | - | - | - | (2,515) | **(2,515)** |
| – Credit loss allowance for other financial assets | (625) | (3,309) | - | (1,392) | **(5,326)** |
| – Credit loss allowance for financial assets measured at FVOCI | 738 | - | - | 1,104 | **1,842** |
| – Net impairment of non-financial assets | 7 | 108 | 23 | (585) | **(447)** |
| – **Operating profit after expected credit and non-financial asset impairment losses** | **246,845** | **267,614** | **137,195** | **67,769** | **719,423** |
| – Losses from modifications of financial instruments | (856) | (642) | (93) | - | **(1,591)** |
| – Staff costs | (22,140) | (66,060) | (27,774) | (32,097) | **(148,071)** |
| – Depreciation and amortisation | (2,454) | (23,609) | (5,859) | (4,779) | **(36,701)** |
| – Provision for liabilities and charges | - | - | - | (9) | **(9)** |
| – Administrative and other operating expenses | (7,618) | (34,525) | (13,639) | (16,365) | **(72,147)** |
| – **Operating expenses** | **(32,212)** | **(124,194)** | **(47,272)** | **(53,250)** | **(256,928)** |
| – **Profit before tax** | **213,777** | **142,778** | **89,830** | **14,519** | **460,904** |
| – Income tax expense | (24,846) | (15,329) | (11,402) | (5,948) | **(57,525)** |
| – **Profit for the period** | **188,931** | **127,449** | **78,428** | **8,571** | **403,379** |
| **30 June 2021** | | | | | |
| Total gross loans and advances to customers reported | 5,851,634 | 5,688,519 | 3,734,773 | – | **15,274,926** |
| Total customer accounts reported | 6,185,115 | 5,287,787 | 1,397,516 | – | **12,870,418** |
| Total credit related commitments and performance guarantees | 2,999,097 | 177,427 | 334,281 | – | **3,510,805** |

## 19 Segment Analysis (Continued)

For comparison purposes segment disclosure for 2021 below is prepared without the effect of 2021 re-segmentation as described above.

| *In thousands of GEL* | Corporate | Retail | MSME | Corporate centre and other operations | Total |
|---|---|---|---|---|---|
| **30 June 2021** | | | | | |
| – Interest income | 267,098 | 321,483 | 185,306 | 125,298 | **899,185** |
| – Interest expense | (120,825) | (63,061) | (6,307) | (254,243) | **(444,436)** |
| – Net gains on currency swaps | - | - | - | 13,149 | **13,149** |
| – Inter-segment interest income/(expense) | 26,118 | (72,867) | (69,846) | 116,595 | **-** |
| – **Net interest income** | **172,391** | **185,555** | **109,153** | **799** | **467,898** |
| – Fee and commission income | 46,405 | 101,851 | 23,779 | 14,118 | **186,153** |
| – Fee and commission expense | (34,754) | (24,364) | (14,698) | (4,036) | **(77,852)** |
| – **Net Fee and commission income** | **11,651** | **77,487** | **9,081** | **10,082** | **108,301** |
| – Insurance profit | - | - | - | 9,873 | **9,873** |
| – Net gains/(loss) from derivatives, foreign currency operations and translation | 21,900 | 14,201 | 12,406 | 11,677 | **60,184** |
| – Gains less losses from disposal of investment securities measured at FVOCI | 515 | - | - | 6,526 | **7,041** |
| – Other operating income | 1,642 | 3,511 | 726 | 31,604 | **37,483** |
| – Share of profit of associates | - | - | - | 596 | **596** |
| – **Other operating non-interest income and insurance profit** | **24,057** | **17,712** | **13,132** | **60,276** | **115,177** |
| – Credit loss allowance for loans to customers | 32,635 | (10,344) | 10,272 | - | **32,563** |
| – Credit loss allowance reversal/ (credit loss allowance) for performance guarantees and credit related commitments | 1,591 | 405 | (66) | - | **1,930** |
| – Credit loss allowance for net investments in lease | - | - | - | (2,515) | **(2,515)** |
| – Credit loss allowance for other financial assets | (625) | (3,309) | - | (1,392) | **(5,326)** |
| – Credit loss allowance for financial assets measured at FVOCI | 738 | - | - | 1,104 | **1,842** |
| – Net impairment of non-financial assets | 7 | 108 | 23 | (585) | **(447)** |
| – **Operating profit after expected credit and non-financial asset impairment losses** | **242,445** | **267,614** | **141,595** | **67,769** | **719,423** |
| – Losses from modifications of financial instruments | (856) | (642) | (93) | - | **(1,591)** |
| – Staff costs | (22,140) | (66,060) | (27,774) | (32,097) | **(148,071)** |
| – Depreciation and amortisation | (2,454) | (23,609) | (5,859) | (4,779) | **(36,701)** |
| – Provision for liabilities and charges | - | - | - | (9) | **(9)** |
| – Administrative and other operating expenses | (7,618) | (34,525) | (13,639) | (16,365) | **(72,147)** |
| – **Operating expenses** | **(32,212)** | **(124,194)** | **(47,272)** | **(53,250)** | **(256,928)** |
| – **Profit before tax** | **209,377** | **142,778** | **94,230** | **14,519** | **460,904** |
| – Income tax expense | (24,053) | (15,329) | (12,195) | (5,948) | **(57,525)** |
| – **Profit for the period** | **185,324** | **127,449** | **82,035** | **8,571** | **403,379** |
| **30 June 2021** | | | | | |
| Total gross loans and advances to customers reported | 5,752,029 | 5,688,519 | 3,834,378 | – | **15,274,926** |
| Total customer accounts reported | 6,120,436 | 5,287,787 | 1,462,195 | – | **12,870,418** |
| Total credit related commitments and performance guarantees | 2,999,097 | 177,427 | 334,281 | – | **3,510,805** |

## 19 Segment Analysis (Continued)

Segment disclosure below is prepared without the effect of 2020 re-segmentation as described above:

| *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** |
| – Insurance profit | - | - | - | 10,281 | **10,281** |
| – Net gains/(loss) from derivatives, foreign currency operations and translation | 25,763 | 17,897 | 13,748 | (9,649) | **47,759** |
| – Gains less losses from disposal of investment securities measured at FVTOCI | - | - | - | (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 and insurance profit** | **26,621** | **20,287** | **13,877** | **4,120** | **64,905** |
| – 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 FVOCI | 8 | - | - | (546) | **(538)** |
| – Other non-financial assets impairment | (332) | (295) | (100) | 102 | **(625)** |
| – **Profit/(loss) before administrative and other expenses and income taxes** | **158,057** | **74,940** | **49,873** | **(2,248)** | **280,622** |
| – **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 | (5,471) | (27,977) | (9,184) | (12,759) | **(55,391)** |
| – **Operating expenses** | **(22,393)** | **(104,136)** | **(37,937)** | **(37,069)** | **(201,535)** |
| – **Profit/(loss) 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/(loss) 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** |

## 19 Segment Analysis (Continued)

| *in thousands of GEL* | Corporate | Retail | Micro, small and medium enterprises | Corporate centre and other operations | Total |
|---|---|---|---|---|---|
| **30 June 2021** | | | | | |
| - Fee and commission income | 46,861 | 101,851 | 23,323 | 14,118 | **186,153** |
| - Other operating income | 1,642 | 3,511 | 726 | 31,604 | **37,483** |
| **Total** | **48,503** | **105,362** | **24,049** | **45,722** | **223,636** |
| **Timing of revenue recognition:** | | | | | |
| - At point in time | 48,474 | 104,452 | 24,046 | 45,722 | **222,694** |
| - Over a period of time | 29 | 910 | 3 | | **942** |

| *in thousands of GEL* | Corporate | Retail | Micro, small and medium enterprises | Corporate centre and other operations | Total |
|---|---|---|---|---|---|
| **30 June 2020** | | | | | |
| - Fee and commission income | 24,949 | 96,189 | 11,443 | 6,171 | **138,752** |
| - Other operating income | 858 | 2,390 | 129 | 4,600 | **7,977** |
| **Total** | **25,807** | **98,579** | **11,572** | **10,771** | **146,729** |
| **Timing of revenue recognition:** | | | | | |
| - At point in time | 25,761 | 97,124 | 11,549 | 10,771 | **145,205** |
| - Over a period of time | 46 | 1,455 | 23 | - | **1,524** |

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

| ***in thousands of GEL*** | **30 June 2021** | **31 December 2020** |
|---|---|---|
| Total segment assets (gross loans and advances to customers) | 15,274,926 | 15,200,520 |
| Credit loss allowance | (477,958) | (606,246) |
| Cash and cash equivalents | 1,414,414 | 1,635,405 |
| Mandatory cash balances with National Bank of Georgia | 2,117,157 | 2,098,506 |
| Due from other banks | 59,314 | 50,805 |
| Investment securities measured at fair value through other comprehensive income | 2,022,385 | 1,527,268 |
| Bonds carried at amortised cost | 10,069 | 1,089,801 |
| Current income tax prepayment | 14,966 | 69,888 |
| Deferred income tax asset | 6,747 | 2,787 |
| Other financial assets | 287,761 | 171,302 |
| Net investments in leases | 245,261 | 271,660 |
| Other assets | 311,218 | 266,960 |
| Premises and equipment | 371,909 | 372,956 |
| Intangible assets | 284,555 | 239,523 |
| Investment properties | 33,407 | 68,689 |
| Goodwill | 59,964 | 59,964 |
| Right of use assets | 51,160 | 53,927 |
| Investments in associates | 4,286 | 4,090 |
| **Total assets per statement of financial position** | **22,091,541** | **22,577,805** |

## 19 Segment Analysis (Continued)

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

| *in thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Total segment liabilities (customer accounts) | 12,870,418 | 12,572,728 |
| Due to credit institutions | 3,482,830 | 4,486,373 |
| Debt securities in issue | 1,445,614 | 1,496,497 |
| Current income tax liability | 653 | 853 |
| Deferred income tax liability | 18,457 | 13,088 |
| Provisions for liabilities and charges | 21,435 | 25,335 |
| Other financial liabilities | 124,308 | 227,432 |
| Other liabilities | 101,265 | 87,842 |
| Subordinated debt | 635,981 | 672,740 |
| Lease Liabilities | 53,755 | 58,983 |
| **Total liabilities per statement of financial position** | **18,754,716** | **19,641,871** |

## 20 Interest Income and Expense

| *In thousands of GEL* | 30 June 2021 | 30 June 2020 |
|---|---|---|
| **Interest income calculated using effective interest method** | | |
| Loans and advances to customers | 762,432 | 663,530 |
| Investment securities measured at fair value through OCI | 98,500 | 46,056 |
| Due from other banks | 9,225 | 9,573 |
| Bonds carried at amortised cost | 1,344 | 42,363 |
| Other financial asset | 1,186 | 854 |
| **Other interest income** | | |
| Net investments in lease | 26,498 | 25,517 |
| **Total interest income** | **899,185** | **787,893** |
| **Interest expense** | | |
| Customer accounts | 230,839 | 177,846 |
| Due to credit institutions | 125,448 | 149,560 |
| Subordinated debt | 27,624 | 27,650 |
| Debt Securities in issue | 58,989 | 51,498 |
| **Other interest expense** | | |
| Lease liabilities | 1,452 | 1,537 |
| Other | 84 | - |
| **Total interest expense** | **444,436** | **408,091** |
| **Net gains on currency swaps** | **13,149** | **12,522** |
| **Net interest income** | **467,898** | **392,324** |

During the six months ended 30 June 2021 the interest accrued on impaired loans amounted to GEL 34,663 thousand (30 June 2020: GEL 16,175 thousand).

## 21 Fee and Commission Income and Expense

| *In thousands of GEL* | 30 June 2021 | 30 June 2020 |
|---|---|---|
| *Fee and commission income in respect of financial instruments not at fair value through profit or loss:* | | |
| - Card operations | 89,891 | 65,033 |
| - Settlement transactions | 61,375 | 43,868 |
| - Guarantees issued | 18,369 | 17,047 |
| - Cash transactions | 3,959 | 3,886 |
| - Issuance of letters of credit | 2,913 | 2,686 |
| - Foreign exchange operations | 964 | 580 |
| - Other | 8,682 | 5,652 |
| **Total fee and commission income** | **186,153** | **138,752** |
| *Fee and commission expense in respect of financial instruments not at fair value through profit or loss:* | | |
| - Card operations | 56,941 | 41,531 |
| - Settlement transactions | 8,373 | 5,856 |
| - Cash transactions | 3,104 | 3,989 |
| - Guarantees received | 1,279 | 1,149 |
| - Letters of credit | 1,040 | 665 |
| - Foreign exchange operations | 156 | 110 |
| - Other | 6,959 | 2,383 |
| **Total fee and commission expense** | **77,852** | **55,683** |
| **Net fee and commission income** | **108,301** | **83,069** |

## 22 Other Operating Income

| *In thousands of GEL* | 30 June 2021 | 30 June 2020 |
|---|---|---|
| Gain from sale of investment properties | 22,752 | 368 |
| Gain on disposal of premises and equipment | 5,106 | 48 |
| Revenues from e-commerce | 2,998 | 2,759 |
| Gain from sale of repossessed collateral | 2,064 | 322 |
| Revenues from operational leasing | 1,341 | 1,283 |
| Revenues from non-credit related fines | 149 | 122 |
| Revenues from sale of cash-in terminals | 95 | 317 |
| Other | 2,978 | 2,758 |
| **Total other operating income** | **37,483** | **7,977** |

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of repossessed collateral disposed of in the period ended 30 June 2021 was GEL 15,630 thousand (30 June 2020: GEL 4,840 thousand).

Gain on disposal of premises and equipment and gain from sale of investment properties include gain generated from disposal of land and buildings where Bank’s headquarter is currently located. Details of the transaction are described in note 10.

## 23 Administrative and Other Operating Expenses

| *In thousands of GEL* | 30 June 2021 | 30 June 2020 |
|---|---|---|
| Advertising and marketing services | 12,036 | 10,348 |
| Professional services | 11,701 | 8,122 |
| Intangible asset maintenance | 9,514 | 6,756 |
| Rent expense | 7,661 | 6,641 |
| Taxes other than on income | 5,071 | 4,839 |
| Premises and equipment maintenance | 4,467 | 3,262 |
| Utility services | 4,271 | 3,426 |
| Communications and supply | 3,434 | 2,952 |
| Stationery and other office expenses | 2,831 | 3,086 |
| Insurance | 1,200 | 954 |
| Transportation and vehicle maintenance | 1,189 | 794 |
| Security services | 939 | 943 |
| Personnel training and recruitment | 615 | 511 |
| Loss on disposal of premises and equipment | 524 | 10 |
| Charity | 278 | 799 |
| Loss on disposal of inventories | 113 | 120 |
| Business trip expenses | 109 | 558 |
| Other | 6,194 | 1,270 |
| **Total administrative and other operating expenses** | **72,147** | **55,391** |

## 24 Income Taxes

As at 30 June 2021, the statutory income tax rate applicable to the majority of the Group’s income is 15% (six months ended 30 June 2020: 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.

## 25 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.

**25 Financial and Other Risk Management (Continued)**

**Expected credit loss (ECL) measurement**

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

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

**Definition of default**

Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3. The Group's definition of default for the purpose of ECL measurement is in accordance with the Capital Requirements Regulation (EU).

The Group uses both quantitative and qualitative criteria for the definition of default. The borrower is classified as defaulted if at least one of the following occurred:

- Any amount of contractual repayments is past due more than 90 days;
- Factors indicating the borrower's unlikeliness-to-pay.

In case of individually significant borrowers the Bank additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its 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.

In As a result of Covid 19, the Group introduced additional default criteria to exposures particularly affected by the covid-19 restriction. The criteria included lower days past due threshold and deterioration in debt coverage ratio for the compromised borrowers. Given that majority of the credit moratoria has already expired, the past due days appropriately reflect the credit quality of the borrower and the respective additional criteria is no longer applicable as of June 2021. Deteriorating debt coverage rates is still maintained as of June 2021.

**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

**25 Financial and Other Risk Management (Continued)**

transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

*Qualitative criteria*

Financial asset is transferred to Stage 2 and lifetime ECLs is measured if at least one of the following SICR qualitative criteria is observed:

- delinquency period of more than 30 days on contractual repayments;
- exposure is restructured, but is not defaulted;
- borrower is classified as "watch".

The Group has not rebutted the presumption that there has been significant increase in credit risk since origination when financial asset becomes more than 30 days past due. This qualitative indicator of SICR together with debt restructuring is applied to all segments. Particularly for corporate and SME segment the Group uses downgrade of risk category since origination of the financial instrument as a qualitative indicator of SICR. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Once the borrower is classified as "watch" category it is transferred to Stage 2. If any of the SICR indicators described above occur financial instrument is transferred to Stage 2. Financial asset may be moved back to Stage 1, if SICR indicators are no longer observed.

As a result of COVID 19, the Group introduced additional SICR criteria to compromised borrowers who were subject to COVID-19 restrictions. The criteria was based on the repayment history of the exposure after the grace period and availability of recent financial monitoring information for the vulnerable business borrowers. As of June 2021, the effect of additional SICR criteria have been exhausted.

**ECL measurement**

The Group utilizes two approaches for ECL measurement – individual assessment and collective assessment. Individual assessment is mainly used for stage 2 and stage 3 individually significant borrowers. Additionally, the Bank may arbitrarily designate selected exposures to individual measurement of ECL based on the Bank's credit risk management or underwriting departments' decision.

The Bank uses the discounted cash flow (DCF) method for the determination of recovery amount under individual assessment. In order to ensure the accurate estimation of recoverable amount the Bank may utilize scenario analysis approach. Scenarios may be defined considering the specifics and future outlook of individual borrower, sector the borrower operates in or changes in values of collateral. In case of scenario analysis the Bank forecasts recoverable amount for each scenario and estimates respective losses. Ultimate ECL is calculated as the weighted average of losses expected in each scenario, weighted by the probability of scenario occurring.

As a result of COVID-19 pandemic, the Bank performed individual assessment for the majority of individually significant borrowers operating in vulnerable sectors, such as Hospitality & Leisure and Real Estate. Under an individual assessment, the Bank considered the financial prospects of the borrowers by taking into account the future macroeconomic conditions and analyzing the implications of COVID-19 pandemic on their business and operations.

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

The key principles of calculating the credit risk parameters:

## 25 Financial and Other Risk Management (Continued)

### Exposure at default (EAD)

The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. In light of the COVID-19 pandemic, the Group expects that prepayment rates will be lower compared to the pre-pandemic levels. In order to reflect this expectation in the EAD modelling, the respective downward adjustment was applied to the prepayment rates for the future one-year period in December 2020. The Group decided to follow the assumption made as of 31 December 2020 and gradually ease adjustments made to the prepayment rates to return to pre-pandemic level at the end of 2021. As the result, in June 2021 downward adjustment was applied to the prepayment rates for future half-year period (except for Corporate Segment, where FPR adjustment is still applied for the following 12 months, as improved prepayment rates were not observed). For revolving products, the Group estimates the EAD based on the expected limit utilisation percentage conditional on the default event.

### Probability of default (PD)

Probability of default parameter describes the likelihood of a default of a facility over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its contractual debt obligations. The PD parameter is time-dependent (i.e. has a specific term structure) and is applied to all non-defaulted contracts. Taking into account specific nature of different segments of clients for which the PD is estimated as well as unique characteristics that drive their default propensity, the PD is modelled differently for Retail and Micro segments and Corporate and SME segments. PD assessment approach is also differentiated for different time horizons and is further adjusted due to expected influence of macroeconomic variables as forecasted for the period (see 'Forward Looking Information" section for further details on incorporation of macroeconomic expectations in ECL calculation). Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months marginal PDs over the life of the instrument. The Group uses different statistical approaches such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data and gradual convergence of long-term PD with the long-term default rate.

### Loss given default (LGD)

The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Bank is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied. As a result of COVID, the Bank reduced recovery rates for retail and micro exposures in stage 3 to reflect the expected impact of the pandemic related restrictions. As of June recovery rate related assumptions were remained unchanged. Further, the Group applied an additional downward adjustment to the collateral values for stage 3 exposures in SME and Corporate segments to capture the expected real estate price drop. As of June, the Group updated the adjustment based on the new macroeconomic forecast.

### 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

**25 Financial and Other Risk Management (Continued)**

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

The Bank uses statistical models and historical relationship between the various macroeconomic factors and default observations to derive forward-looking adjustments. In case these models do not provide reasonable results either from statistical or business perspective, the Bank may apply expert judgment or use alternative approach. As at 30 June 2021, The Bank uses same approaches as in 31 December 2020. The bank employees statistical models to derive forward looking adjustment in all segments except for corporate. In corporate segment, due to the availability of comprehensive borrower-level financial information and insignificance of the statistical models, the Bank uses stress test approach instead. The baseline, upside and downside scenarios were remained unchanged from 31 December 2020 and assigned probability weighing of 60%, 10% and 30%, respectively. The conservative probability weighting was kept to account for the uncertainty caused by the global pandemic.

The forward looking information is incorporated in both individual and collective assessment of expected credit losses.

**Model maintenance and validation**

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual credit loss. Such back-testing is performed at least once a year. As part of the back-testing process, the Group evaluates actual realization of the risk parameters and their consistency with the model estimates. Additionally staging criteria are also analysed within the back-testing process. The results of back-testing the ECL measurement methodology are communicated to the Group Management and further actions for tuning the models and assumptions are defined after discussions between authorised persons.

**Geographical risk concentrations.**

Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from 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.

## 25 Financial and Other Risk Management (Continued)

The table below presents the geographical concentration of the Group's assets and liabilities as at 30 June 2021:

| *In thousands of GEL* | Georgia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 1,060,943 | 349,266 | 4,205 | **1,414,414** |
| Due from other banks | 45,920 | 13,394 | - | **59,314** |
| Mandatory cash balances with National Bank of Georgia | 2,117,157 | - | - | **2,117,157** |
| Loans and advances to customers | 14,359,764 | 111,137 | 326,067 | **14,796,968** |
| Investment securities measured at fair value through other comprehensive income | 1,562,476 | 458,136 | 1,773 | **2,022,385** |
| Bonds carried at amortised cost | - | - | 10,069 | **10,069** |
| Investments in leases | 243,223 | - | 2,038 | **245,261** |
| Other financial assets | 283,750 | 3,880 | 131 | **287,761** |
| **Total financial assets** | **19,673,233** | **935,813** | **344,283** | **20,953,329** |
| Non-financial assets | 1,133,823 | 338 | 4,051 | **1,138,212** |
| **Total assets** | **20,807,056** | **936,151** | **348,334** | **22,091,541** |
| **Liabilities** | | | | |
| Due to credit institutions | 1,882,998 | 1,572,069 | 27,763 | **3,482,830** |
| Customer accounts | 10,881,616 | 1,022,119 | 966,683 | **12,870,418** |
| Debt securities in issue | 1,445,614 | - | - | **1,445,614** |
| Other financial liabilities | 122,134 | 324 | 1,850 | **124,308** |
| Lease liabilities | 53,384 | - | 371 | **53,755** |
| Subordinated debt | 111,501 | 364,026 | 160,454 | **635,981** |
| **Total financial liabilities** | **14,497,247** | **2,958,538** | **1,157,121** | **18,612,906** |
| Non-financial liabilities | 139,041 | - | 2,769 | **141,810** |
| **Total liabilities** | **14,636,288** | **2,958,538** | **1,159,890** | **18,754,716** |
| **Net balance sheet position** | **6,170,768** | **(2,022,387)** | **(811,556)** | **3,336,825** |
| Performance guarantees | 656,898 | 723,172 | 242,453 | **1,622,523** |
| Credit related commitments | 1,877,652 | 3,638 | 6,992 | **1,888,282** |

## 25 Financial and Other Risk Management (Continued)

The table below shows the geographical concentration of the Group's assets and liabilities as at 31 December 2020.

| *in thousands of GEL* | Georgia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 940,076 | 686,110 | 9,219 | **1,635,405** |
| Due from other banks | 37,753 | 13,052 | – | **50,805** |
| Mandatory cash balances with National Bank of Georgia | 2,098,506 | – | – | **2,098,506** |
| Loans and advances to customers | 14,111,683 | 131,066 | 351,525 | **14,594,274** |
| Investment securities measured at fair value through OCI | 1,206,673 | 318,682 | 1,913 | **1,527,268** |
| Bonds carried at amortised cost | 1,089,801 | – | – | **1,089,801** |
| Investments in leases | 271,314 | – | 346 | **271,660** |
| Other financial assets | 167,163 | 3,978 | 161 | **171,302** |
| **Total financial assets** | **19,922,969** | **1,152,888** | **363,164** | **21,439,021** |
| Non-financial assets | 1,133,766 | 396 | 4,622 | **1,138,784** |
| **Total assets** | **21,056,735** | **1,153,284** | **367,786** | **22,577,805** |
| **Liabilities** | | | | |
| Due to credit institutions | 2,363,147 | 2,110,307 | 12,919 | **4,486,373** |
| Customer accounts | 10,647,808 | 911,146 | 1,013,774 | **12,572,728** |
| Debt securities in issue | 1,496,497 | – | – | **1,496,497** |
| Other financial liabilities | 227,063 | 356 | 13 | **227,432** |
| Lease liabilities | 57,317 | – | 1,666 | **58,983** |
| Subordinated debt | 115,394 | 390,941 | 166,405 | **672,740** |
| **Total financial liabilities** | **14,907,226** | **3,412,750** | **1,194,777** | **19,514,753** |
| Non-financial liabilities | 122,684 | 63 | 4,371 | **127,118** |
| **Total liabilities** | **15,029,910** | **3,412,813** | **1,199,148** | **19,641,871** |
| **Net balance sheet position** | **6,026,825** | **(2,259,529)** | **(831,362)** | **2,935,934** |
| Performance guarantees | 745,511 | 746,871 | 258,659 | **1,751,041** |
| Credit related commitments | 1,868,011 | 4,678 | 8,627 | **1,881,316** |

### 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. The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

On 13 August 2018 the NBG introduced new regulation on changes to OCP ("open currency position") calculation method, according to this regulation, from March 2019 special reserves assigned to FC balance-sheet assets would be deductible gradually for OCP calculation purposes. As a result of COVID-19 pandemic, the NBG implemented countercyclical measure in relation to OCP requirements: suspended the phasing in of special reserved planned to be fully implemented by July 2022.

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. The Bank has in place the methodology developed for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers part of the provisions to be denominated in the USD, Euro and other currencies. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and

## 25 Financial and Other Risk Management (Continued)

liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented.

| **As of 30 June 2021**<br>*in thousands of GEL* | **Monetary financial assets** | **Monetary financial liabilities** | **Derivatives** | **Net position** |
|---|---|---|---|---|
| Georgian Lari | 9,031,314 | 6,686,428 | 67,840 | 2,412,726 |
| US Dollar | 7,507,337 | 10,421,811 | 2,893,009 | (21,465) |
| Euro | 4,304,743 | 1,374,259 | (2,949,796) | (19,312) |
| Other | 109,935 | 130,408 | 53,015 | 32,542 |
| **Total** | **20,953,329** | **18,612,906** | **64,068** | **2,404,491** |

| **As of 31 December 2020**<br>*in thousands of GEL* | **Monetary financial assets** | **Monetary financial liabilities** | **Derivatives** | **Net position** |
|---|---|---|---|---|
| Georgian Lari | 8,756,581 | 7,115,738 | 159,241 | 1,800,084 |
| US Dollar | 8,004,885 | 10,956,193 | 2,914,494 | (36,814) |
| Euro | 4,556,780 | 1,315,871 | (3,227,918) | 12,991 |
| Other | 120,775 | 126,951 | 61,164 | 54,988 |
| **Total** | **21,439,021** | **19,514,753** | **(93,019)** | **1,831,249** |

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2021 by GEL 3,181 thousand (increase by GEL 3,181 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2020 by GEL 8,623 thousand (decrease by GEL 8,623 thousand).

US Dollar strengthening by 20% (weakening 20%) would decrease Group's profit or loss and equity in 2020 by GEL 3,862 thousand (increase by GEL 3,862 thousand). Euro strengthening by 20% (weakening 20%) would increase Group's profit or loss and equity in 2020 by GEL 2,598 thousand (decrease by GEL 2,598 thousand).

### Interest rate risk

Interest rate risk arises from potential changes in the market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The Bank's deposits and the part of the loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. In case of need, the Bank also applies for interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate Risk Appetite limits, monitoring compliance with them and preparing forecasts.

Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk Committee.

**25 Financial and Other Risk Management (Continued)**

Following main assumptions under NBG IRR Regulation and EBA 2018 guidelines, at 30 June 2021, if interest rates had been 200 basis points higher, with all other variables held constant, profit would have been GEL 105,080 thousand higher, mainly as a result of higher interest income on variable interest assets. Other comprehensive income would have been GEL 39,200 thousand higher (30 June 2020: GEL 23,698 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 2021 had been 200 basis points lower with all other variables held constant, profit for the year would have been GEL 31,641 thousand lower, mainly as a result of lower interest income on variable interest assets. Other comprehensive income would have been GEL 39,200 thousand lower (30 June 2020: GEL 24,600 thousand), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

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

In order to manage interest rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and the Board's Risk, Ethics and Compliance Committee.

**Liquidity Risk**

The liquidity risk is the risk that TBC Bank either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. The risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an on-going basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

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

**Funding liquidity risk**

is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses the Liquidity Coverage ratio and the Net Stable Funding ratio set, forth under Basel III, and defined further by the NBG. In addition the Bank performs stress tests and "what-if" scenario analysis. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches are applied to the deposits' withdrawal rates depending on the clients group's concentration. From September, 2017 the Bank also monitors compliance with NBG LCR limits. In 2019, for long-term liquidity risk management purposes NBG introduced Net Stable Funding Ratio (""NBG NSFR"). From September, 2019, on a monthly basis the Bank monitors compliance with the set limit for NBG NSFR.

*The Liquidity Coverage ratio* is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time 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.

## 25 Financial and Other Risk Management (Continued)

The management believes that a strong and diversified funding structure is one of TBC Bank's differentiators. The Bank relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance the liability structure TBC Bank sets the targets for deposits and IFI funding within the Bank's risk appetite.

The 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.

### 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 2021 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 2021 is as follows:

| *in thousands of GEL* | Less than 3 months | From 3 to 12 months | From 1 to 5 Years | Over 5 years | Total |
|---|---|---|---|---|---|
| Due to credit institutions | 1,809,247 | 624,139 | 1,226,301 | 22,609 | **3,682,296** |
| Customer accounts – individuals | 4,425,301 | 1,699,304 | 1,412,607 | 61,632 | **7,598,844** |
| Customer accounts – other | 4,129,370 | 495,061 | 760,440 | 427,291 | **5,812,162** |
| Other financial liabilities | 109,461 | 5,567 | 29 | - | **115,057** |
| Lease liabilities | 3,419 | 9,553 | 35,738 | 5,322 | **54,032** |
| Subordinated debt | 5,593 | 45,942 | 328,970 | 546,760 | **927,265** |
| Debt securities in issue | 885 | 100,711 | 1,644,237 | - | **1,745,833** |
| Gross settled forwards | 2,556,190 | 2,043,951 | 87,267 | - | **4,687,408** |
| Performance guarantees | 153,027 | 663,063 | 795,147 | 11,358 | **1,622,595** |
| Financial guarantees | 324,073 | - | - | - | **324,073** |
| Letters of credit | 17,574 | 41,642 | 64,783 | - | **123,999** |
| Other credit related commitments | 1,440,210 | - | - | - | **1,440,210** |
| **Total potential future payments for financial obligations** | **14,974,350** | **5,728,933** | **6,355,519** | **1,074,972** | **28,133,774** |

The maturity analysis of financial liabilities as 31 December 2020 is as follows:

| *in thousands of GEL* | Less than 3 months | From 3 to 12 months | From 1 to 5 Years | Over 5 years | Total |
|---|---|---|---|---|---|
| Due to credit institutions | 2,138,399 | 1,156,117 | 2,678,130 | 146,205 | **6,118,851** |
| Customer accounts – individuals | 4,275,412 | 1,828,748 | 1,282,427 | 53,445 | **7,440,032** |
| Customer accounts – other | 4,077,900 | 502,224 | 619,298 | 492,887 | **5,692,309** |
| Other financial liabilities | 208,111 | 10,236 | 537 | – | **218,884** |
| Lease liabilities | 3,098 | 9,029 | 35,298 | 5,849 | **53,274** |
| Subordinated debt | 13,998 | 75,845 | 1,441,419 | 1,635,831 | **3,167,093** |
| Debt securities in issue | 1,230 | 59,356 | 1,451,263 | – | **1,511,849** |
| Gross settled forwards | 3,561,859 | 484,099 | 90,172 | – | **4,136,130** |
| Performance guarantees | 211,607 | 588,883 | 937,975 | 12,610 | **1,751,075** |
| Financial guarantees | 318,935 | - | - | - | **318,935** |
| Letters of credit | 10,820 | 90,559 | 59,463 | - | **160,842** |
| Other credit related commitments | 1,401,539 | – | – | – | **1,401,539** |
| **Total potential future payments for financial obligations** | **16,222,908** | **4,805,096** | **8,595,982** | **2,346,827** | **31,970,813** |

## 25 Financial and Other Risk Management (Continued)

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.
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 2021, 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 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,413,640 | 774 | - | - | **1,414,414** |
| Due from other banks | 18,696 | 9,661 | 16,905 | 14,052 | **59,314** |
| Mandatory cash balances with National Bank of Georgia | 2,117,157 | - | - | - | **2,117,157** |
| Loans and advances to customers | 1,261,272 | 2,739,999 | 6,161,944 | 4,633,753 | **14,796,968** |
| Investment securities measures at fair value through OCI | 2,022,385 | - | - | - | **2,022,385** |
| Bonds carried at amortised cost | 8,969 | 300 | 800 | - | **10,069** |
| Net investments in leases | 30,585 | 66,383 | 144,358 | 3,935 | **245,261** |
| Insurance and reinsurance Receivables | 9,484 | 17,614 | - | - | **27,098** |
| Other financial assets | 220,181 | 21,026 | 19,456 | - | **260,663** |
| **Total financial assets** | **7,102,369** | **2,855,757** | **6,343,463** | **4,651,740** | **20,953,329** |
| Due to credit institutions | 1,788,506 | 551,600 | 1,120,971 | 21,753 | **3,482,830** |
| Customer accounts | 979,438 | 57,917 | - | 11,833,063 | **12,870,418** |
| Debt securities in issue | 132 | 92,372 | 1,353,110 | - | **1,445,614** |
| Other financial liabilities | 109,461 | 5,568 | 29 | - | **115,058** |
| Lease liabilities | 3,114 | 8,923 | 34,661 | 7,057 | **53,755** |
| Insurance contract liabilities | 1,950 | 7,300 | - | - | **9,250** |
| Subordinated debt | 2,419 | 3,474 | 162,694 | 467,394 | **635,981** |
| **Total financial liabilities** | **2,885,020** | **727,154** | **2,671,465** | **12,329,267** | **18,612,906** |
| Performance guarantees | 3,012 | - | - | - | **3,012** |
| Financial guarantees | 4,619 | - | - | - | **4,619** |
| Other credit related commitments | 100,214 | - | - | - | **100,214** |
| **Credit related commitments and performance guarantees** | **107,845** | - | - | - | **107,845** |
| **Net liquidity gap as of 30 June 2021** | **4,109,504** | **2,128,603** | **3,671,998** | **(7,677,527)** | **2,232,578** |
| **Cumulative gap as of 30 June 2021** | **4,109,504** | **6,238,107** | **9,910,105** | **2,232,578** | |

## 25 Financial and Other Risk Management (Continued)

As at 31 December 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 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,634,585 | 820 | – | – | **1,635,405** |
| Due from other banks | 11,736 | 14,600 | 24,469 | – | **50,805** |
| Mandatory cash balances with National Bank of Georgia | 2,098,506 | – | – | – | **2,098,506** |
| Loans and advances to customers | 1,555,793 | 2,512,140 | 6,117,469 | 4,408,872 | **14,594,274** |
| Investment securities measures at fair value through OCI | 1,527,268 | – | – | – | **1,527,268** |
| Bonds carried at amortised cost | 41,168 | 164,846 | 559,823 | 323,964 | **1,089,801** |
| Net investments in leases | 23,675 | 73,284 | 168,447 | 6,254 | **271,660** |
| Insurance and reinsurance Receivables | 7,641 | 14,190 | – | – | **21,831** |
| Other financial assets | 135,716 | 2,094 | 11,652 | 9 | **149,471** |
| **Total financial assets** | **7,036,088** | **2,781,974** | **6,881,860** | **4,739,099** | **21,439,021** |
| Due to credit institutions | 2,116,391 | 1,007,235 | 1,322,468 | 40,279 | **4,486,373** |
| Customer accounts | 1,267,458 | 380,992 | – | 10,924,278 | **12,572,728** |
| Debt securities in issue | 121 | 56,031 | 1,440,345 | – | **1,496,497** |
| Other financial liabilities | 208,111 | 10,236 | 537 | – | **218,884** |
| Lease liabilities | 4,061 | 9,061 | 35,281 | 10,580 | **58,983** |
| Insurance contract liabilities | 1,950 | 6,598 | – | – | **8,548** |
| Subordinated debt | 11,747 | 16,369 | 258,110 | 386,514 | **672,740** |
| **Total financial liabilities** | **3,609,839** | **1,486,522** | **3,056,741** | **11,361,651** | **19,514,753** |
| Performance guarantees | 4,427 | – | – | – | **4,427** |
| Financial guarantees | 5,424 | – | – | – | **5,424** |
| Other credit related commitments | 100,214 | – | – | – | **100,214** |
| **Credit related commitments and performance guarantees** | **110,065** | **–** | **–** | **–** | **110,065** |
| **Net liquidity gap as of 31 December 2020** | **3,316,184** | **1,295,452** | **3,825,119** | **(6,622,552)** | **1,814,203** |
| **Cumulative gap as of 31 December 2020** | **3,316,184** | **4,611,636** | **8,436,755** | **1,814,203** | |

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

## 26 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 condensed consolidated 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.

## 26 Contingencies and Commitments (Continued)

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 2021 and 31 December 2020 no material provision for potential tax liabilities has been recorded.

**Compliance with covenants**

The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. During 2020 and 2021, the bank renegotiated some of its lender covenants to reflect the changes in the operations as a result of the COVID -19. The Group was in compliance with all covenants as of 31 December 2020 and 30 June 2021.

**Management of Capital**

The Bank manages capital requirements under regulatory rules. The Bank complied with all its imposed capital requirements throughout the reporting period.

**Credit related commitments and financial guarantees**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent the irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, that are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing

Commitments to extend credit represent unused portions of authorisations to prolong credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is lower than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term ones.

As of 30 June 2021 Outstanding credit related commitments are as follows:

| *in thousands of GEL* | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|
| Undrawn credit lines | 1,374,620 | 57,553 | 8,037 |
| Letters of credit issued | 122,483 | 355 | 1,161 |
| Financial guarantees issued | 316,437 | 5,693 | 1,943 |
| **Total credit related commitments (before provision)** | **1,813,540** | **63,601** | **11,141** |
| Undrawn credit lines | (3,138) | (650) | (3) |
| Letters of credit issued | (219) | (0) | - |
| Financial guarantees issued | (598) | (2) | (9) |
| **Credit loss allowance for credit related commitments** | **(3,955)** | **(652)** | **(12)** |
| **Total credit related commitments** | **1,809,585** | **62,949** | **11,129** |

As of 31 December 2020 Outstanding credit related commitments are as follows:

| *in thousands of GEL* | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|
| Undrawn credit lines | 1,222,916 | 165,798 | 12,825 |
| Letters of credit issued | 158,131 | 1,464 | 1,247 |
| Financial guarantees issued | 303,046 | 14,571 | 1,318 |
| **Total credit related commitments (before provision)** | **1,684,093** | **181,833** | **15,390** |
| Undrawn credit lines | (3,246) | (986) | (15) |
| Letters of credit issued | (376) | - | - |
| Financial guarantees issued | (795) | (4) | (2) |
| **Credit loss allowance for credit related commitments** | **(4,417)** | **(990)** | **(17)** |
| **Total credit related commitments** | **1,679,676** | **180,843** | **15,373** |

## 26 Contingencies and Commitments (Continued)

The credit quality of contingencies and commitments is as follows at 30 June 2021:

| *in thousands of GEL* | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit impaired) | Total |
|---|---|---|---|---|
| ***Undrawn credit lines risk category*** | | | | |
| - Very low | 1,314,504 | 2,378 | - | **1,316,882** |
| - Low | 58,194 | 43,697 | - | **101,891** |
| - Moderate | 1,922 | 10,724 | - | **12,646** |
| - High | - | 754 | - | **754** |
| - Default | - | - | 8,037 | **8,037** |
| **Gross carrying amount** | **1,374,620** | **57,553** | **8,037** | **1,440,210** |
| Credit loss allowance | (3,138) | (650) | (3) | **(3,791)** |
| **Carrying amount** | **1,371,482** | **56,903** | **8,034** | **1,436,419** |
| ***Letters of credit issued risk category*** | | | | **-** |
| - Very low | 122,483 | - | - | **122,483** |
| - Low | - | 355 | - | **355** |
| - Moderate | - | - | - | **-** |
| - High | - | - | - | **-** |
| - Default | - | - | 1,161 | **1,161** |
| **Gross carrying amount** | **122,483** | **355** | **1,161** | **123,999** |
| Credit loss allowance | (219) | - | - | **(219)** |
| **Carrying amount** | **122,264** | **355** | **1,161** | **123,780** |
| ***Financial guarantees issued risk category*** | | | | **-** |
| - Very low | 314,538 | 93 | - | **314,631** |
| - Low | 1,899 | 2,802 | - | **4,701** |
| - Moderate | - | 2,798 | - | **2,798** |
| - High | - | - | - | **-** |
| - Default | - | - | 1,943 | **1,943** |
| **Gross carrying amount** | **316,437** | **5,693** | **1,943** | **324,073** |
| Credit loss allowance | (598) | (2) | (9) | **(609)** |
| **Carrying amount** | **315,839** | **5,691** | **1,934** | **323,464** |

## 26 Contingencies and Commitments (Continued)

The credit quality of contingencies and commitments is as follows at 31 December 2020:

| *in thousands of GEL* | Stage 1 (12-months ECL) | Stage 2 (lifetime ECL for SICR) | Stage 3 (lifetime ECL for credit impaired) | Total |
|---|---|---|---|---|
| ***Undrawn credit lines risk category*** | | | | |
| - Very low | 1,157,753 | 3,820 | - | **1,161,573** |
| - Low | 62,193 | 146,114 | - | **208,307** |
| - Moderate | 2,963 | 14,723 | - | **17,686** |
| - High | 7 | 1,141 | - | **1,148** |
| - Default | - | - | 12,825 | **12,825** |
| **Gross carrying amount** | **1,222,916** | **165,798** | **12,825** | **1,401,539** |
| Credit loss allowance | (3,246) | (986) | (15) | **(4,247)** |
| **Carrying amount** | **1,219,670** | **164,812** | **12,810** | **1,397,292** |
| ***Letters of credit issued risk category*** | | | | |
| - Very low | 157,992 | - | - | **157,992** |
| - Low | 139 | 1,464 | - | **1,603** |
| - Moderate | - | - | - | **-** |
| - High | - | - | - | **-** |
| - Default | - | - | 1,247 | **1,247** |
| **Gross carrying amount** | **158,131** | **1,464** | **1,247** | **160,842** |
| Credit loss allowance | (376) | - | - | **(376)** |
| **Carrying amount** | **157,755** | **1,464** | **1,247** | **160,466** |
| ***Financial guarantees issued risk category*** | | | | |
| - Very low | 268,333 | 100 | - | **268,433** |
| - Low | 34,713 | 14,471 | - | **49,184** |
| - Moderate | - | - | - | **-** |
| - High | - | - | - | **-** |
| - Default | - | - | 1,318 | **1,318** |
| **Gross carrying amount** | **303,046** | **14,571** | **1,318** | **318,935** |
| Credit loss allowance | (795) | (4) | (2) | **(801)** |
| **Carrying amount** | **302,251** | **14,567** | **1,316** | **318,134** |

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 2021 included in undrawn credit lines above were GEL 603,051 thousand (31 December 2020: GEL 579,915 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 2021 amounted to GEL 1,622,523 thousand and GEL 3,012 thousand (31 December 2020: GEL 1,751,041 thousand and GEL 4,427 thousand).

Fair value of credit related commitments and financial guarantees provisions was GEL 4,619 thousand as at 30 June 2021 (31 December 2020: GEL 5,424 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

## 26 Contingencies and Commitments (Continued)

| *In thousands of GEL* | 30 June 2021 | 31 December 2020 |
|---|---|---|
| Georgian Lari | 1,227,196 | 1,208,199 |
| US Dollars | 1,676,054 | 1,584,878 |
| Euro | 545,612 | 776,307 |
| Other | 61,943 | 62,973 |
| **Total** | **3,510,805** | **3,632,357** |

***Capital expenditure commitments.*** As at 30 June 2021, the Group has contractual capital expenditure commitments amounting to GEL 91,048 thousand (31 December 2020: GEL 14,631 thousand). Out of total amount contractual commitments related to the head office construction amounted GEL 57,124 thousand (31 December 2020: GEL 4,853 thousand).

## 27 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 2021 | | | Total | 31 December 2020 | | | Total |
|---|---|---|---|---|---|---|---|---|
| *in thousands of GEL* | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 | |
| **ASSETS CARRIED AT FAIR VALUE** | | | | | | | | |
| **FINANCIAL ASSETS** | | | | | | | | |
| *Investment securities measured at fair value through other comprehensive income* | | | | | | | | |
| - Certificates of Deposits of National Bank of Georgia | – | – | – | – | – | 21,687 | – | **21,687** |
| - Corporate Bonds | – | 667,299 | – | **667,299** | – | 664,563 | – | **664,563** |
| - Ministry of Finance of Uzbekistan treasury bills | – | 1,807 | – | **1,807** | – | 1,950 | – | **1,950** |
| - Ministry of Finance of Georgia Treasury Bills | – | 1,352,222 | – | **1,352,222** | – | 838,152 | – | **838,152** |
| - Corporate shares | – | – | 1,056 | **1,056** | – | – | 916 | **916** |
| - Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks | – | 79,828 | – | **79,828** | – | 28,915 | – | **28,915** |
| -Investment held at fair value through profit or loss | – | – | 11,528 | **11,528** | – | – | 17,239 | **17,239** |
| **TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS** | – | **2,101,156** | **12,584** | **2,113,740** | **–** | **1,555,267** | **18,155** | **1,573,422** |
| **LIABILITIES CARRIED AT FAIR VALUE** | | | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities | – | 15,759 | – | **15,759** | – | 121,934 | – | **121,934** |
| **TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS** | – | **15,759** | – | **15,759** | **–** | **121,934** | **–** | **121,934** |

There were no transfers between levels during the six months ended 30 June 2021 (2020: none).

## 27 Fair Value Disclosures (Continued)

The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

| *in thousands of GEL* | 30 June 2021 | 31 December 2020 | Valuation technique | Inputs used |
|---|---|---|---|---|
| **ASSETS CARRIED AT FAIR VALUE** | | | | |
| **FINANCIAL ASSETS** | | | | |
| - Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds | 2,021,328 | 1,526,352 | Discounted cash flows ("DCF") | Government bonds yield curve |
| - Foreign exchange forwards and gross settled currency swaps, included in due from banks | 79,828 | 28,915 | Forward pricing using present value calculations | Official exchange rate, risk-free rate |
| **Total assets recurring fair value measurements at level 2** | **2,101,156** | **1,555,267** | | |
| **LIABILITIES CARRIED AT FAIR VALUE** | | | | |
| **FINANCIAL LIABILITIES** | | | | |
| - Foreign exchange forwards included in other financial liabilities | 15,759 | 121,934 | Forward pricing using present value calculations | Official exchange rate, risk-free rate |
| **Total liabilities recurring fair value measurements at level 2** | **15,759** | **121,934** | | |

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 2021 (2020: none).

### *(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:

| | 30 June 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| ***in thousands of GEL*** | **Level 1** | **Level 2** | **Level 3** | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Carrying Value** |
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and cash equivalents | 832,304 | 582,110 | – | **1,414,414** | 755,686 | 879,719 | – | **1,635,405** |
| Due from other banks | – | 59,314 | – | **59,314** | – | 50,805 | – | **50,805** |
| Mandatory cash balances with the NBG | – | 2,117,157 | – | **2,117,157** | – | 2,098,506 | – | **2,098,506** |
| Loans and advances to customers: | | | | | | | | |
| - Corporate loans | – | – | 5,788,317 | **5,773,610** | – | – | 5,728,134 | **5,583,108** |
| - Consumer loans | – | – | 2,015,109 | **1,710,436** | – | – | 2,025,055 | **1,769,760** |
| - Mortgage loans | – | – | 4,125,803 | **3,708,022** | – | – | 4,032,243 | **3,845,232** |
| - Loans to micro, small and medium enterprises | – | – | 3,681,325 | **3,604,900** | – | – | 3,508,881 | **3,396,174** |
| Bonds carried at amortised cost | – | 10,069 | – | **10,069** | – | 1,086,007 | – | **1,089,801** |
| Investments in leases | – | – | 244,691 | **245,261** | – | – | 274,402 | **271,660** |
| Other financial assets | – | – | 196,405 | **196,405** | – | – | 125,148 | **125,148** |
| **NON-FINANCIAL ASSETS** | | | | | | | | |
| Investment properties, at cost | – | – | 42,649 | **33,407** | – | – | 105,628 | **68,689** |
| **TOTAL ASSETS** | **832,304** | **2,768,650** | **16,094,299** | **18,872,995** | **755,686** | **4,115,037** | **15,799,491** | **19,934,288** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Customer accounts | – | 7,913,265 | 4,958,564 | **12,870,418** | – | 7,481,872 | 5,113,469 | **12,572,728** |
| Debt securities in issue | 1,522,291 | – | – | **1,445,614** | 1,463,830 | – | – | **1,496,497** |
| Due to credit institutions | – | 3,485,963 | – | **3,482,830** | – | 4,490,963 | – | **4,486,373** |
| Other financial liabilities | – | 162,304 | – | **162,304** | – | 164,479 | – | **164,479** |
| Subordinated debt | – | 640,268 | – | **635,981** | – | 677,246 | – | **672,740** |
| **TOTAL LIABILITIES** | **1,522,291** | **12,201,800** | **4,958,564** | **18,597,147** | **1,463,830** | **12,814,560** | **5,113,469** | **19,392,817** |

## 27 Fair Value Disclosures (Continued)

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. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value. Management assessed the prices per square meter and they have not changed significantly from the end of 2020.

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 2021 (2020: none).

## 28 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 5% 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.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia (link to the document below in the footnote).

As of 30 June 2021, the outstanding balances with related parties were as follows:

| *in thousands of GEL* | Contractual interest rate | Significant shareholders | Key management personnel |
|---|---|---|---|
| Gross amount of loans and advances to customers | 4%-33% | 39 | 7,777 |
| Credit loss allowance for loans and advances to customers | | - | 3 |
| Customer accounts | 0.0%-12.5% | 13,672 | 18,809 |

As of 31 December 2020, the outstanding balances with related parties were as follows:

| *in thousands of GEL* | Contractual interest rate | Significant shareholders | Key management personnel |
|---|---|---|---|
| Gross amount of loans and advances to customers | 6.6% – 36.0% | 54 | 6,869 |
| Credit loss allowance for loans and advances to customers | | – | 4 |
| Customer accounts | 0.0% – 11.5% | 16,574 | 16,555 |

## 28 Related Party Transactions (Continued)

The income and expense items with related parties except from key management compensation during the period end 30 June 2021 were as follows:

| *In thousands of GEL* | **Significant shareholders** | **Key management personnel** |
|---|---|---|
| Interest income | 3 | 153 |
| Interest expense | - | 1 |
| Fee and commission income | 14 | 28 |
| Administrative and other operating expenses (excluding staff costs) | - | 177 |

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

| *In thousands of GEL* | **Significant shareholders** | **Key management personnel** |
|---|---|---|
| Interest income | 4 | 164 |
| Interest expense | 1 | 2 |
| 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 2021 were as follows:

| *In thousands of GEL* | **Significant shareholders** | **Key management personnel** |
|---|---|---|
| Amounts advanced to related parties during the period | 41 | 4,056 |
| Amounts repaid by related parties during the period | (55) | (2,453) |

Aggregate amounts of loans advanced to and repaid by related parties during the six months ended 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) |

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

| | **Expense over the six months ended** | |
|---|---|---|
| *In thousands of GEL* | **30 June 2021** | **30 June 2020** |
| Salaries and bonuses | 4,972 | 4,753 |
| Equity-settled share-based compensation | 5,805 | 4,945 |
| **Total** | **10,777** | **9,698** |

Included in salaries and bonuses for six months ended 30 June 2021 GEL 1,236 thousand relates to compensation for directors of TBCG paid by TBC Bank Group PLC (six months ended 30 June 2020: GEL 1,329 thousand).

## 29 Events after Reporting Period

Subsequent to the year end the Board of Directors of TBC Bank Group PLC has declared an interim dividend of GEL 1.5 per TBC PLC share (the "Interim Dividend"). The Interim Dividend will be payable in Pounds Sterling to ordinary shareholders of TBC Bank Group PLC on the register of members at the close of business on the record date of 20 August 2021. Dividend payment date will be 17 September 2021.

**Appendix A** - 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 | 76 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 | 44 Petre Kavtaradze street, 0128, Tbilisi, Georgia |
| Swoop JSC | 44 Petre Kavtaradze street, 0162, Tbilisi, Georgia |
| Natural Products of Georgia LLC | 1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia |
| Mobi Plus JSC | 45 Vajha Pshavela Street, 0177, Tbilisi, Georgia |
| Mineral Oil Distribution Corporation JSC | 11 Tskalsadeni Street, 0153, Tbilisi, Georgia |
| Georgian Card JSC | 106 Beliashvili Street, 0159, Tbilisi Georgia |
| Georgian Securities Central Depositor | 74 Chavchavadze Avenue, 0162, Tbilisi, Georgia |
| JSC Givi Zaldastanishvili American Academy In Georgia | 37 Chavchavadze Avenue, 0162, Tbilisi Georgia |
| United Clearing Centre | 5 Sulkhan Saba Street, 0105, Tbilisi, Georgia |
| GRDC N.V | Utrechtseweg 95, 1213 TN Hilversum,Netherlands |
| 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 | 25 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia |
| TBC Ecosystem companies LLC | 7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia |
| TKT UZ | 12, Shota Rustaveli, Yakkasaray district, Tashkent, Uzbekistan |
| My.Ge LLC | 129a Sh. Nutsubidze St. Vake,Tbilisi, Georgia |
| Mypost LLC | 129a Sh. Nutsubidze St. Vake,Tbilisi, Georgia |
| Billing Solutions LLC | 14 Khelovanta St. Isani, Tbilisi, Georgia |
| Allproperty.ge LLC | 4 Besiki St.Mtatsminda District, Tbilisi,Georgia |
| F Solutions LLC | 36, Kakheti Hwy, Isani-Samgori District, Tbilisi, Georgia |
| TBC Connect | 7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia |
| Inspired LLC | 1, Chust, Mirzo Ulugbek district, Tashkent, Uzbekistan |
| VENDOO LLC (UZ Leasing) | 10B, Fidokor, Yakkasaray, Tashkent, Uzbekistan |
| TBC Concept LLC | 7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia |
| TBC Bank UZ | 118/1, Amir Temur avenue, Yunusobod district, Tashkent, Uzbekistan |
| TBC Group Support LLC | 7 Marjanishvili st. Didube-chugureti District, Tbilisi,Georgia |
| Tbilisi Stock Exchange JSC | floor 2th block 8, 71 Vazha Pshavela Ave, Tbilisi, Georgia |
| Georgian Stock Exchange JSC | 74a chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia |
| Kavkasreestri JSC | 74a chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia |
| Freeshop.ge LLC2 | 74 chavchavadzis avenue, vake-saburtalo, Tbilisi, Georgia |
| The.ge LLC2 | 20 amaglebis st. old Tbilisi, Georgia |
| SABA LLC | 5, Gabashvili street, vake-saburtalo Tbilisi, Georgia |
| Artarea.ge LLC | 25 Al. Kazbegi Avenue, 0160, Tbilisi, Georgia |
| TBC Art Gallery LLC | 6, Tsimakuridze str, Tbilisi, Georgia |
| TBC Capital Asset Management LLC | 7 Marjanishvili Street, 0102, Tbilisi, Georgia |
| Swift | 1 Adele Avenue, B-1310, La Hulpe, Belgium |
| Space International JSC | 7 Marjanishvili Street, 0102, Tbilisi, Georgia |