2018

TBC Bank invests in smart, digital solutions offering customers the most innovative services.

ANNUAL REPORT

თიბისი ბანკი TBC BANK

TBC BANK

TBC Bank[1] is the largest banking group in Georgia - serving around 83% of the country's adult population. TBC Bank is listed on the premium segment of London Stock Exchange and is a FTSE 250 constituent.

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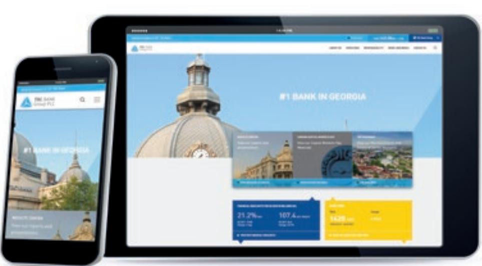


For more information visit our website www.tbcbankgroup.com

[1] TBC Bank Group PLC (the company), the UK-incorporated parent company of JSC TBC Bank (the Bank) and its subsidiaries (together TBC Bank or the Group)

ROBUST PROFITABILITY AND STRONG EFFICIENCY LEVELS

₾ 454.9 mln
+ 23.2% YoY
UNDERLYING NET PROFIT[1(APM)]

₾ 437.4 mln
+ 21.5% YoY
REPORTED NET PROFIT

22.8%
+ 1.4pp YoY
UNDERLYING RETURN ON AVERAGE EQUITY[1 (APM)]

22.0%
+ 1.1pp YoY
REPORTED RETURN ON AVERAGE EQUITY

3.3%
+ 0.1pp YoY
UNDERLYING RETURN ON AVERAGE ASSETS[1 (APM)]

3.2%
+ 0.1pp YoY
REPORTED RETURN ON AVERAGE ASSETS

37.8%
- 3.9pp YoY
COST TO INCOME RATIO

₾ 8.1
+ 20.9% YoY
EARNINGS PER SHARE

STRONG GROWTH AND SOUND ASSET QUALITY

₾ 10,372.6 mln
+ 21.3% YoY
TOTAL LOANS

₾ 9,352.1 mln
+ 19.6% YoY
TOTAL DEPOSITS

3.1%
- 0.2pp YoY
NON-PERFORMING LOANS

SOLID CAPITAL AND LIQUIDITY LEVELS

12.8%
- 0.6pp YoY
TIER I CAPITAL

17.9%
+ 0.4pp YoY
TOTAL CAPITAL

89.9%
- 2.6pp YoY
NET LOANS TO DEPOSITS PLUS IFI FUNDING

BEST-IN-CLASS DIGITAL CHANNELS

90.6%
+ 2.3pp YoY
OFFLOADING RATIO

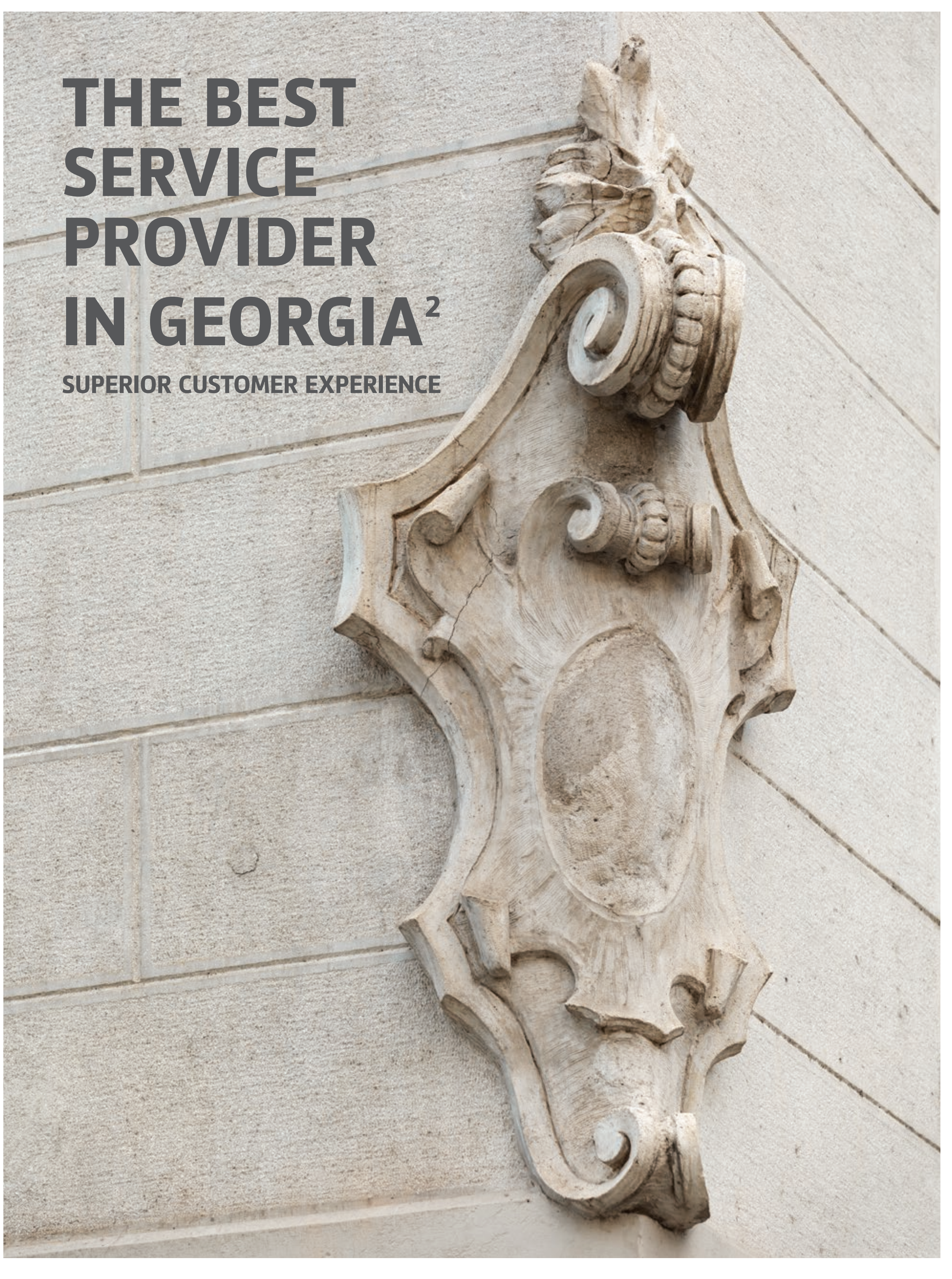
37.0%
+ 5.6pp YoY
MOBILE BANKING PENETRATION

43.7%
+ 3.3pp YoY
MOBILE AND INTERNET BANKING PENETRATION

HIGH EMPLOYEE SATISFACTION LEVEL

66%
+ 11pp YoY
ENPS

87%
- 4pp YoY
ENGAGEMENT INDEX



1 More information about underlying figures (APMs) is given in Annex 1 on page 106
2 Based on survey conducted by independent research company IPM among retail segment in December 2018

TBC Bank is the established leader in the Georgian banking sector. We are known for our strong financial performance, commitment to excellence and constant pursuit of innovation. We pride ourselves on having the best digital capabilities, unrivalled customer experience and the country's most recognised brand.

WHO WE ARE

We are the largest banking group in Georgia by all key metrics, leading the market in terms of total assets, total loans and total deposits. We also hold a dominant position in all of our key segments - retail banking, micro, small and medium enterprises (MSME) and corporate banking. In addition, we provide a wide range of other financial services including insurance, leasing, investment banking and brokerage services through our subsidiaries.

Through our advanced omni–channel distribution platform, which encompasses the best-in-class digital channels and a vast network of branches, we are able to serve a customer base comprising of approximately 83% of Georgia's adult population.

KEY OPERATING DATA

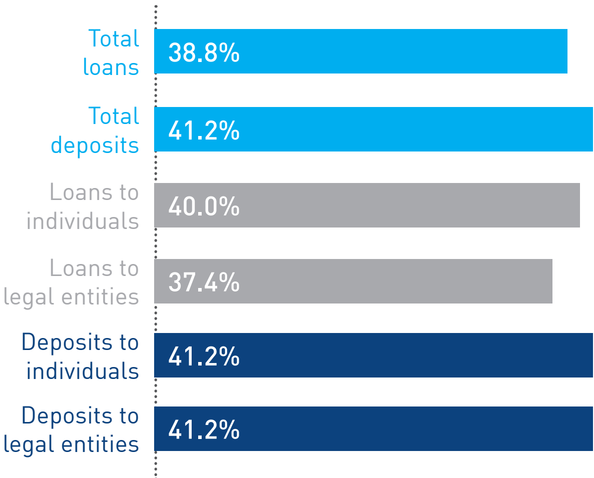
Number of customers: c.2,400,000

Retail : c.2,300,000
MSME: c.130,000
Corporate: c.2,800

Number of branches: 149

Number of employees: c.7,300

NUMBER ONE MARKET POSITION BY ALL KEY METRICS[1]



OUR CORE VALUES

- Build a happy and success-oriented team
- Create a client-centric culture
- Build a straightforward business model and honest relationships
- Pursue innovative approaches
- Deliver strong, sustainable financial results
- Make a positive impact in the community

1 Based on data published by National Bank of Georgia as of 31 December 2018

HOW WE ARE DIFFERENT

Best-in-class digital channels
As we operate in the digital world, we are continuously investing in technology and upgrading our operations in order to be able to provide our customers the most innovative solutions on the market. We are proud to have world-class Internet and mobile banking applications and to be the pioneers in the country with the first Georgian-speaking chat bot and voice biometric recognition system in call center. Our most significant achievement this year was the launch of 'Space', the first digital only bank in Georgia.

Superior customer experience
Impeccable customer service is part of our DNA and we are committed to delivering the best customer experience across all our channels. We invest significant time and effort to understand the evolving needs of our customers and fine-tuning our solutions according to their preferences. We have scored[2] the highest customer satisfaction in the banking sector for many years in a row and hold a leading position among other service providers across the country.

Strong brand
TBC Bank is a highly admired brand in Georgia. It is renowned for its credibility, excellence, innovation and community service. We act with integrity and transparency in all our undertakings and strive to create value for all our stakeholders including shareholders, customers, partners, employees and the community at large. TBC Bank has also received many country, regional and global awards, including "Best Bank in Georgia", by respected international magazines such as The Banker, EMEA Finance, Euromoney and Global Finance.

Focus on financial services
We have a clear business model focused on financial services. We primarily engage in banking and related activities as well as other services that enhance, support and generate synergies with our core business. Such a dedicated approach helps us to concentrate all our efforts on what we do best and constantly seek for new ways to fine-tune our value proposition. As a result, we have built strong expertise and a significant competitive advantage, which will help us to bring the company to the next level.

Our strategy leverages on our key strengths and aspires to create maximum value to our customers by developing the most innovative solutions to satisfy their daily needs.

Find out more about our strategy on pages 14 to 23.

2 According to the surveys conducted by the independent research companies ACT and IPM

Dear shareholders,
I am pleased to report another successful year in TBC Bank's history, which was marked by strong financial results and significant progress towards our strategic goals.

KEY ACHIEVEMENTS AND STRATEGY

In 2018, we continued to transform our banking business into more digital, customer focused and agile organization, whilst generating high returns and outpacing market in terms of loan book and deposit growth. As a result of our strong financial performance, I am pleased to announce that the Board recommended a dividend of 1.98 GEL per share, up by 20.7% compared to the last year.

One of our major achievements this year was launching the first fully digital bank in Georgia, Space. This is a unique solution, which challenges traditional approaches to banking by creating a truly end-to-end digital experience through intuitive interfaces and simple, real-time processes and features. The project proved to be very successful and exceeded our expectations by attracting around 94,000 users and 260,000 downloads since its launch in May 2018. We believe that Space is our big step forward into the future, as it will change the way people handle their daily financial needs, creating a new reality in the Georgian banking system.

Our customers lie at the heart of everything we do and our priorities evolve with our clients' needs and aspirations. We recognise that in today's highly demanding environment, our customers require ever-more sophisticated products and services in order to meet the needs of their daily lives. As a result, we introduced a new strategic priority - development of customer-focused ecosystems, which are closely linked to our core financial products and will create additional value for our customers. The CEO's letter describes these new projects in more detail.

A further highlight of 2018 was our increased international expansion. While Georgia is, and will remain, our main focus, our strong banking expertise and advanced digital capabilities give us the confidence to seek new opportunities abroad and expand our international presence. After thorough consideration, we decided to strengthen our presence in Azerbaijan by merging our Azeri subsidiary, TBC Kredit, with the local Nikoil Bank and to enter the Uzbekistan's market by establishing a greenfield bank. In both cases, we are pursuing an asset-light, gradual capital investment approach and we are primarily focusing on digital offerings, aimed at retail and MSME customers. I will personally dedicate more time to successful implementation of our international strategy in 2019.

OPERATING ENVIRONMENT

Georgia confirmed to be an attractive business environment, with continuing structural reforms and high GDP growth potential. In 2018, the country further improved its ranking in the World Bank's Doing Business report by three positions and became the 6th in the world. This remarkable progress is also recognised through other assessments as Georgia reached the 7th position in the Economic Freedom Index and became 5th as safest country[1].

The strong economic growth reflected the progress in the reforms and higher diversification of external inflows with increasing share taken by new, more stable markets. Despite the regional economic instability, in 2018 real GDP increased by a solid 4.8%[2]. This was achieved despite the unfavorable cross-border environment as well as the temporary fiscal surplus throughout the year. Furthermore, the economic growth has been more inclusive, as unemployment dropped, and more sustainable, as the current account deficit improved.

Together with strong exports and remittances, the tourism sector continued to play a key role in Georgia's economic development as tourism inflows increased by an estimated 18.4% year-on-year in US$ terms and number of international visitors exceeding 7.2 million. Also, while the South Caucasus Pipeline Extension project has been finalised in 2018, the Anaklia Deep Sea Port was launched with the aim of further promoting the country's pivotal role as a regional logistics and transportation hub, and providing a further upside to the growth, together with other large scale infrastructure and energy sector-related projects. As a result of strong

macroeconomic performance and launched strategic initiatives, on February 22, 2019 Fitch Ratings upgraded Georgia's sovereign credit rating from 'BB-' to 'BB' with stable outlook.

While the banking sector has begun to export technologies to other markets, the local capital market is gradually developing, with our subsidiary TBC Capital holding around half of the market share in locally-issued corporate bonds. The pension system reform, which came into force in January 2019, is expected to contribute to the development of capital market in the country and further strengthen its economic growth potential.

As a result of solid fundamentals, in 2018 projections for Georgia's high medium-term growth were confirmed above 5.0%[3]. It is important to highlight that Uzbekistan, where TBC Bank is developing an expansion plan, also enjoys a growth potential above 5.0%[4] – it is a resilient economy with an underdeveloped banking system and a story of reform-driven transition comparable to Georgia's. Projections for GDP growth are not as strong in Azerbaijan, however the country has significantly higher GDP per capita than Georgia and is making progress with regard to being better prepared to withstand fluctuations in oil prices.

GOVERNANCE

As the chairman of TBC Bank, I am committed to ensuring an excellent governance and highest ethical standards within the Group. I am also committed to maintaining a diverse and wide-ranging set of skills and experiences within the Board. I believe such diversity is vital in order to ensure our business reaches is full potential.

As already announced, we have appointed two women as Non-Executive Directors as part of our Board: Maria Luisa Cicognani and Tsira Kemularia. Ms. Cicognani and Ms. Kemularia have extensive international experience at the some of the world's leading financial institutions and will bring further valuable perspectives and balance to our Board.

I am deeply saddened that Eric Rajendra has resigned from the Board due to health reasons. I would like to thank him for his contribution and dedication during the past years and wish him a speedy recovery.

Further to the Company's announcement made on 21 February 2019, the Bank will implement a restructuring of its Supervisory Board whereby Badri Japaridze and I will continue our roles only as the Deputy Chairman and Chairman of TBC Bank Group PLC, and be stepping down from the Supervisory Board of the JSC TBC Bank. This will enable us to focus more on the Group's strategic and international initiatives. The Board of JSC TBC Bank will be joined by two new members, which are being selected by the Corporate Governance and Nomination Committee and will be announced in due course.

I would like thank all Directors for their significant contribution to the development and oversight of our strategic priorities as well as close monitoring of risk management. I am confident we are on the right track and that, with hard work and persistence, we will achieve our ambitious goals and create sustainable value for all our stakeholders.

ACTING RESPONSIBLY

Corporate responsibility is deeply embedded in our culture. We are dedicated to delivering value to our shareholders, customers and business partners whilst preserving the environment, and making positive contribution to our community. Each and every employee of the Group aspires to do business ethically and act with integrity and respect in all his/her undertakings.

In recognition of our efforts in this regards, in 2018 our CEO, Vakhtang Butskhrikidze, won the Special Award for Responsible Capitalism in Adversity from the prestigious FIRST organisation - a multidisciplinary international affairs organization, which aims to enhance dialogue between leaders in industry, finance and government. This award comes in recognition of our commitment to adhere to the highest standards of corporate governance and to run the business with integrity and responsibility towards all our stakeholders.

Our main CSR priorities remain supporting businesses, the young generation, art and culture. We believe these are aspects of great importance for our country. In 2018, we implemented a series of projects in this regard including:

- financing the publication of the first book about Georgian history and culture by Oxford University;
- supporting Saba, Georgia's main literary award, to celebrate its sixteenth award-ceremony at the 70th International Frankfurt Book Fair;
- developing various education projects for students; and
- introducing an innovative business support platform.

Additional information is detailed in the chapter "Doing business responsibly."

We are also proud contributors to the development of rugby in the country and we are the title sponsor of the Georgian Rugby Union for the fourth year in a row. The success in rugby is important for the country's image on the international stage and it helps to promote a healthy lifestyle among the youth.

OUTLOOK

We will continue to leverage on our strong digital capabilities and superior customer experience in order to better engage with our customers and improve their lives by developing the most innovative solutions. I am confident that our advanced business model and highly professional and engaged team will enable us to generate strong returns and create sustainable value for all our stakeholders.

On behalf of the Board, I would like to thank the management team and all employees for their outstanding efforts, commitment and diligence. I strongly believe that together we will be able to overcome any challenges that lie ahead and achieve our strategic priorities.

Mamuka Khazaradze
Chairman
2 April 2019

1 The Fraser Institute compiles the annual Economic Freedom of the World report while Numbeo publishes the Crime Index
2 Based on initial estimates by Geostat
3 IMF WEO, October 2018
4 IMF WEO, October 2018

Dear shareholders,
2018 was a remarkable year, marked by a strong operating and financial performance. We have exceeded our medium-term growth and profitability targets and have significantly improved our efficiency levels. We have also made significant progress in our digitalization strategy and identified new growth and development opportunities.

FINANCIAL PERFORMANCE

Our underlying consolidated net profit reached GEL 454.9 million, up by 23.2% compared to 2017 (our consolidated reported net profit reached GEL 437.4 million, up by 21.5% compared to 2017). Our underlying return on equity was 22.8%, while the underlying return on assets stood at 3.3% (the reported return on equity stood at 22.0%, while reported return on assets was 3.2%). Our robust profitability was driven by strong income generation, improved cost efficiency and prudent risk management. We also maintained a solid net interest margin, at 6.9%, up by 0.4 pp year-on-year and managed to achieve a strong increase in net fee and commission income, up by 25.1% year-on-year. Over the same period, our cost to income ratio decreased by 3.9 pp and stood at 37.8%, while cost of risk stood at 1.6% or 1.5% without currency effect.

In terms of balance sheet growth, our loan book expanded by 21.3% year-on-year, supported by increase across all business segments which resulted in a market share of 38.8%[1], up by 0.6 pp year-on-year. Our asset quality remained sound with non-performing ratio standing low at 3.1%. Over the same period, deposits increased by 19.6%, thus bringing our deposit market share to 41.2%[1], up by 1.4 pp year-on-year.

Our capital and liquidity ratios continued to remain solid. As of 31 December 2018, our tier 1 and total capital adequacy ratios (CAR) per Basel III guidelines were 12.8% and 17.9% respectively, compared to the corresponding minimum regulatory requirements of 11.8% and 16.7%. At the same time, our net loans to deposits + IFI funding ratio stood at 89.9% and the net stable funding ratio (NSFR) was 130.2%.

STRATEGIC PROGRESS AND NEW PRIORITIES

We continue to make strong progress in delivering on our digital transformation. In the fourth quarter, our offloading ratio reached 90.6%, up by 2.3 pp year-on-year, mainly driven by the increased number of transactions in mobile banking. Over the same period, our mobile banking penetration grew by 5.6 pp and amounted to 37.0%. Sales conducted through digital channels also demonstrated a strong growth, and amounted to 45.3%[2] of total sales in December 2018. I am also extremely proud of Georgia's first fully-digital bank, Space, which we launched in May 2018. Space is a cutting-edge mobile application for managing daily finances offering a unique customer experience through simple procedures and products and an intuitive design. Space is becoming increasingly popular and is helping us to attract new customers as well as re-activate the existing ones.

In order to further deepen the relationship with our customers and expand our value proposition, we are developing customer focused ecosystems, which are closely linked with our core financial products and services. In 2018 we started to:

- develop an e-commerce market place and build an innovative digital trading platform, Vendoo, through the acquisition of Swoop, a well-known online discount and sales company in Georgia;

1 Based on data published by National Bank of Georgia as of 31 December 2018
2 For selected products being offered through remote channels:pre-approved loans, credit cards, limit increase and opening of accounts

- develop a digital ecosystem for real estate in Georgia through the acquisition of a 90% stake in a real estate platform, Allproperty.ge. The ecosystem will offer our customers a wide range of products and services they typically require when purchasing and moving into a new home.

We plan to add more ecosystems in 2019.

As we establish ourselves as digital innovators, we need to react quickly to a fast-changing market environment and maintain best-in-class operating cost levels. Therefore, in 2018 we launched a company-wide agile transformation project which aims to create a more flexible and effective organisational structure. We plan to roll it out across the entire bank over the course of 2019. We also continue to improve our front and back office processes though branch optimisation and automatisation.

In 2018, we also embarked on new challenge - to expand our operations in Azerbaijan and Uzbekistan. This will provide access to a potential customer base of 40 million people, significantly greater than the 3.7 million population of Georgia. Our strategy is to penetrate the retail and MSME segments by offering innovative products mainly through digital channels, including Space. In order to mitigate the risks inherent to these ventures, we intend to adopt a phased approach to investment, which will be determined by the success of our predefined strategic targets.

- Azerbaijan: In January 2019, we signed a shareholder agreement with Nikoil Bank for a merger with our Azerbaijan subsidiary, TBC Kredit. This entitles us to 8.34% of the merged entity and a call option to increase our shareholding to 50%+1 shares within four years, based on a fixed price formula. The transaction is subject to regulatory approval. We have already strengthened Nikoil Bank's management team with new members and we are actively developing our strategy on the ground. In parallel, we are working on improving governance and risk management systems;
- Uzbekistan: We aspire to build a next generation, green field bank in partnership with international financial institutions and a local partner. We have already applied for a banking license and expect to obtain it by the end of 2019. In the meantime, we have launched preparatory work and are actively deploying the core banking system and renovating our pilot branch, which is scheduled to open in March 2019.

MACROECONOMIC OVERVIEW

The economy continued to perform strongly in 2018, following the sharp recovery of 2017. GDP growth stood at 4.8%[3] at year-end and was broad-based across most sectors, placing Georgia among the fastest-growing economies in the region. The core strengths of the country: continuing reforms, diversified trade and investment inflows, as well as a prudent macroeconomic stance continued to pay off. Despite a number of unfavorable regional events and the considerably tighter fiscal policy domestically, the economy remains on a path of sustainable development, also reflected in improved credit rating by Fitch Ratings in early 2019.

The increase in inflows of exports, tourism and remittances remained strong in 1H 2018 (+26.4% YoY in US$ terms). Following the economic difficulties in Turkey, sanctions on Iran, and weakness of the Russsian ruble, the growth of inflows slowed in the second half of the year (+14.1% YoY), but it still remained solid. As for the full year 2018, total inflows were 19.4% higher year-on-year.

The current account (CA) balance continues to improve. Over the last four quarters ending 3Q 2018 the CA deficit to GDP ratio stood at 8.3% compared to the 8.8% in 2017. The improvement resulted from several factors, including the continued positive trend in external inflows, the normalisation of FDI-related imports as well as low fiscal spending. As a result of the improving trend and the strong seasonal effect, in 3Q 2018 the CA even reached a surplus of 0.3% of GDP.

Foreign Direct Investment (FDI) inflows declined by 34.9% YoY in 2018 mostly driven by finalization of BP's South Caucasus Pipeline Extension project[4], as well as by one-offs related to the change of ownership of some companies from non-residents to residents and paying down FDI related debt. FDI inflows to GDP ratio stood at 7.9% - a normalized level following the above trend inflows over 2014–2017. Foreign direct investments at this level continue to be the major source of financing of the CA deficit.

The banking sector loan growth continued to be solid with the bank loan portfolio expanding by 17.2% in 2018 year-on-year at a constant exchange rate. Lending was strong across the business as well as retail segments. At the same time, a sharp slowdown in non-mortgage retail lending was notable following the introduction of a new regulation on retail lending in May 2018.

Overall, Georgia's economy is growing at a strong rate and demonstrating high resilience towards shocks. This is underpinned by the following factors: the diversified sources of inflows, low inflation, prudent fiscal stance, below trend and improving CA deficit and still solid FDI inflows, reasonably balanced exposure to oil prices, exchange rate being likely undervalued, NBG building up its international reserves and no signs of bubble in housing market. Overal, solid macro fundamentals provide an attractive environment for financial services.

OUTLOOK

I am confident that our long-term strategy will generate high returns and provide sustainable value for our shareholders. Thus, I would like to reiterate our mid-term financial targets: ROE of above 20%, cost to income ratio below 35%, dividend pay-out ratio of 25-35% and loan book growth at around 10-15%.

I would like to congratulate the whole TBC team for our outstanding results and express my deep gratitude and appreciation for their hard work.

The Strategic Report as detailed on pages 2 to 106 was approved by the Board, and signed on behalf of the Board by:

Vakhtang Butskhrikidze
CEO
2 April 2019

3 Based on initial estimates by Geostat
4 Additional details about the South Caucasus' pipeline project can be found on www.bp.com/en_ge/bp-georgia/about-bp/bp-in-georgia/south-caucasus-pipeline--scp-.html

ქართულად
#WRITEINGEORGIAN
#წერექართულად
საბა
SABA
თიბისი

TBC Bank, has teamed up with Microsoft as part of a project which aims to integrate the Georgian language and alphabet into computer systems and technology products.

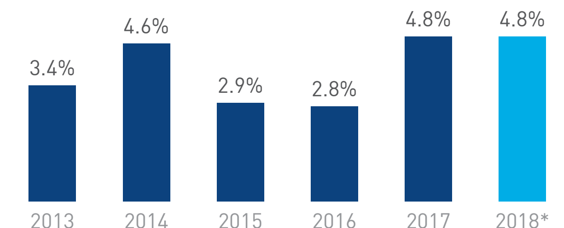
Everyone can contribute to the process by translating sentences online.

www.kartulad.ge

ECONOMIC GROWTH

The Georgian economy continued its solid performance and recorded 4.8%[1] real GDP growth in 2018, unchanged from the 2017 growth rate. Such a development is particularly remarkable given the unfavourable environment in the region and the considerably tighter fiscal policy domestically. The growth at this level once more underlines the economy's core strengths – continuous reforms, diversified trade and investment inflows, as well as a prudent macroeconomic stance.

Real GDP Growth



Source: Geostat
*initial estimates

The growth was broad-based across different sectors of the economy. Data from 9M shows it was mostly driven by trade and repairs (+5.7% YoY), real estate (+12.7% YoY), transport and communications (+6.8% YoY), financial intermediation (+15.8% YoY) and hotels and restaurants (+7.3% YoY). Over the same period, the construction sector declined by 3.8% YoY, reflecting one-off factors related to several large-scale infrastructure projects as well as a slowdown in public spending.

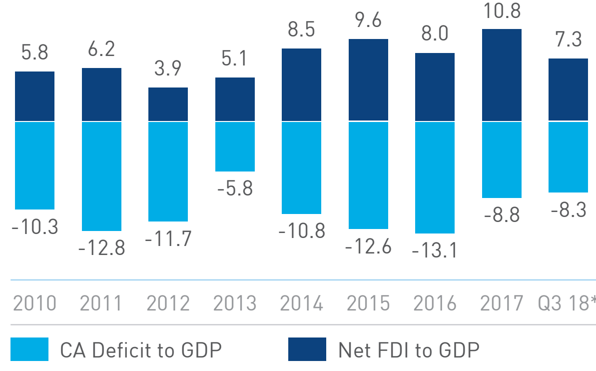
EXTERNAL INFLOWS

Despite the weakening backdrop in the region, inflows remained strong in 2018. In 2018, exports, tourism and remittances grew by a solid 19.4% YoY in US$ terms, mostly driven by inflows from the EU, followed by Azerbaijan, Russia and other CIS economies. Growth of inflows weakened in the second half of 2018, a consequence of the slowdown experienced by several economic partners, as well as the strengthening US$. The Georgian economy continues to align itself closely to more stable markets, such as the EU, whilst reducing the inflows from any one particular country. In that regard the EU became the prime source of remittance inflows, accounting for 35.0% of the total, while treditional markets like Russia, which had always enjoyed the leading position, had a 29.0% share in the total remittances inflows.

Further improvement of the CA balance has been another remarkable development in 2018. Over the last four quarters ending 3Q 2018 the CA deficit to GDP ratio stood at 8.3%, compared to the 8.8% in 2017. The improvement is a result of several factors, including the continued positive trend in external inflows, the normalisation of FDI-related imports as well as low fiscal spending. As a result of the improvement trend and strong seasonal effect, in 3Q 2018 the CA turned even to surplus, at 0.3% of GDP.

FDI inflows declined by 27.2% YoY in 9M 2018, mostly driven by finalization of the BP's South Caucasus Pipeline Extension project[2] as well as by one-offs related to the change of ownership of some companies from non-residents to residents and paying down FDI related debt. Nevertheless, FDI remains the major source of financing for the CA deficit.

CA Deficit and Net FDI (% of GDP)



Source: NBG, Geostat.
*As of the last four quarters ending Q3 2018

FISCAL POLICY

The fiscal policy remained contractionary throughout the year. Although the budget deficit amounted to an estimated 2.6% of the GDP in 2018, the spending was concentrated mostly at the end of the year and it primarily reflected the advance payments on infrastructure projects. The full impact of the spending on growth is likely to be apparent in the coming months, with the strongest effect likely in 2Q 2019. At the same time, tax refunds doubled, from GEL 232.6 million in 2017 to GEL 466.8 million in 2018, creating more business friendly tax environment and supporting the growth.

1 Based on initial estimates by Geostat
2 For details see www.bp.com/en_ge/bp-georgia/about-bp/bp-in-georgia/south-caucasus-pipeline--scp-.html

The public debt profile of Georgia remains sustainable with low weighted average interest rate at around 2.0% and low exposure to interest rate risk (c. 65.0% of total external debt are fixed rate contracts). In 2018 public debt to GDP ratio stood at an estimated 43.7%, down by 0.5 pp YoY. External debt to GDP ratio stood at around 34.2% (-0.7 pp YoY) while the domestic public debt amounted to c. 9.5% of GDP in 2018 (+0.2 pp YoY).

INFLATION AND MONETARY POLICY

Annual CPI inflation was around the targeted level of 3.0% in 2018 with 4.3% in January and gradually declining to 1.5% by the end of 2018. The NBG decreased the policy rate by 0.25 pp from 7.25% to 7.00% in July 2018. The central bank continued the normalisation of the monetary policy in 2019 as well, cutting the policy rate by another 0.25 pp to 6.75% in January.

On the back of higher inflows, lower oil prices and, likely, weaker domestic demand, the NBG continued to increase its foreign currency reserves. Overall, in 2018 the NBG made 17 interventions and purchased US$ 197.5 million – an estimated 1.2% of the GDP.

As for the exchange rates, as of the end of December 2018 the GEL nominal exchange rate weakened against US$ by 3.3% YoY and appreciated against EUR by 1.1% YoY. Over the same period, the GEL nominal effective exchange rate appreciated by 8.0% while the real effective exchange rate appreciation amounted to 4.6%. The GEL real effective exchange rate remained below its long-term trend as well as medium term average.

FINANCIAL SECTOR

The financial sector, dominated by the banks, continues to grow under a prudent regulatory framework. As of the end of 2018 total assets of the banking sector increased by 14.7% YoY and amounted to GEL 39.7 billion, or 96.4% of GDP [3].

Total loan portfolio increased by 19.3% YoY and reached GEL 26.6 billion, or 64.5% of GDP[3]. Excluding the FX effect, bank loans increased by 17.2%. The growth was almost equally split between the national currency loans and foreign currency loans: the former increased by 19.5% YoY, while the latter stood at 19.2% YoY (+15.4% YoY excluding FX effect).

The dollarisation continues to decline, both on loans and deposits side, however at a slower pace. As of the end of 2018, loan dollarisation stood at 57.0%, down by 0.1 pp YoY and 0.9 pp lower excluding the FX effect. In 2018 deposits in grew by 23.4% YoY, while FX deposits went up by 12.3% YoY (8.8% YoY excluding FX effect). The deposit dollarisation declined by 2.2 pp YoY (2.9 pp excluding FX effect) and stood at 63.1% as of December 2018.

The banking sector profitability remained solid with return on equity at 19.5% in 2018[4]. At the same time, the quality of the credit portfolio for the financial sector remains robust. As of Q4 2018 the share of non-performing loans[5] in the total portfolio stood at 2.7%, down by 0.1pp YoY and unchanged compared to the previous quarter.

GOING FORWARD

Georgia continues to position itself as an attractive business environment with structural reforms and high GDP growth potential. In addition, 2018 further demonstrated the economy's resilience. Indicators including lower CA deficit, lower public debt and more appropriate levels of international reserves contribute to further strengthening the macroeconomic backdrop in the country. The more resilient risk-profile coupled with continued structural reforms and business friendly environment should support investments and growth. According to the IMF projections, the Georgian economy is expected to remain among the fastest growing economies in the region with an average GDP growth estimated at above 5.0% in the medium term.

ABOUT TBC RESEARCH

In 2018 TBC group's new initiative – TBC Research was launched. TBC Research represents the joint project of TBC Bank economic team and TBC Capital created to provide analysis of developments in the economy of Georgia and various sectors, as well as the regional environment. With different skills and experiences brought together in one team, TBC research covers topics of interest for investors, corporates, and broader audience. Publications are available at www.tbcresearch.ge.

3 Initial estimates for Q4 2018 GDP
4 Based on the local regulatory accounting standards
5 NPLs are based on the IMF definition and include loans with payments of principal or interest past due by 90 days or more

OUR KEY STRENGTHS

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

LEADING POSITION IN THE MARKET WITH A CONSISTENT TRACK RECORD OF GROWTH AND PROFITABILITY

- 28.5%[1] loan book CAGR for the 2013-2018;
- 28.6% net profit CAGR for the 2013-2018;
- ROE above 20% since 2015.

INTEGRATED BUSINESS MODEL FOCUSED ON EVERY SEGMENT OF THE FINANCIAL SERVICES MARKET

- Single point of contact for all financial needs;
- Around 99.7% of group assets are related to banking, leasing, investment banking, insuarance and brokerage activities.

STRONG BRAND AND REPUTATION

- First bank of choice for customers as well as one of the most attractive employers;
- The country's leading company in terms of corporate responsibility[2];
- Recipient of 33 awards for "Best Bank in Georgia" since 2002 from the world's leading financial magazines[3].

ADVANCED OMNI-CHANNEL PLATFORM WITH STRONG FOCUS ON DIGITAL

- Our digital solutions, offering an unrivaled customer experience, represent the core of our distribution platform accounting for 91% of all transactions in 2018;
- Recipient of multiple digital awards from Global Finance Magazine, including five global awards and 25 countrywide and regional (CEE) awards since 2012.

1 on constant curreny basis the growth was 23.0%

SUPERIOR CUSTOMER EXPERIENCE

- "The Customer comes first" approach – we place our clients at the center of all our activities and services;
- Striving for continuous improvement through innovation, investment in digital channels and infrastructure with cutting edge technologies;
- Maintain highest satisfaction scores in Georgia's banking sector for many years in a row[4].

LEADING PARTNER FOR BUSINESSES IN GEORGIA

- 65%[5] of all registered companies in Georgia in 2018 chose TBC Bank;
- Building strong TBC BUSINESS brand by developing an ecosystem of banking and supplementary services for businesses.

HIGHLY MOTIVATED AND ENGAGED TEAM

- High employee satisfaction scores[6] with ENPS at 66% and Engagement Index of 87%;
- Corporate culture centered on collaboration and commitment;
- Continuous investment in our employees, focusing on their professional development, satisfaction and wellbeing.

EXPERIENCED MANAGEMENT TEAM AND HIGH-QUALITY CORPORATE GOVERNANCE

- Highly qualified and diverse board of directors with strong commitment to highest standards of corporate governance and business transparency;
- Listing on the premium segment of London Stock Exchange, full compliance with the UK Corporate Governance Code.

EFFECTIVE RISK MANAGEMENT

- A sophisticated risk management system which ensures the Group's sustainability and resilience;
- Our prudent approach translates into a low cost of risk, a sound asset quality and a strong capital and liquidity positions.

2 Based on number of CSR projects financed
3 The Banker, EMEA finance, Euromoney, Global Finance
4 Based on surveys conducted by the independent research companies IPM and ATC
5 Data is for FY 2018, source: www.napr.gov.ge, the National Agency of Public Registry
6 Employee Net Promotor score and Employee Engagement Index were measured by an independent consultant

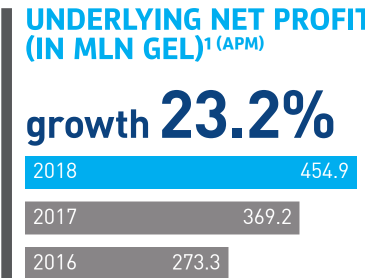
KEY PERFORMANCE INDICATORS

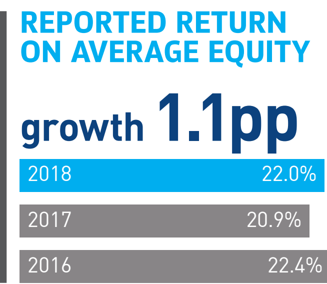
We closely monitor the progress against our strategy and have developed key performance indicators (KPIs) that measure our financial and operational performance. These KPIs are closely aligned with our strategy and ensure that we deliver on our goals and achieve sustainable growth.

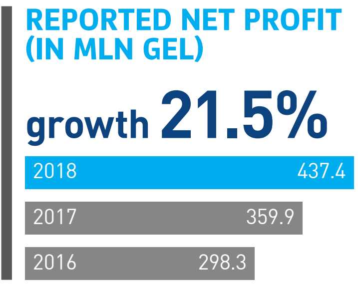
In 2018, we have recorded strong underlying net profit, up by 23.2% year-on-year (the reported profit increased by 21.5% over the same period). Our robust profitability was driven by strong income generation, improved cost efficiency and prudent risk management. Our net interest margin improved by 0.4 pp year-on-year and reached 6.9% in 2018 driven by the increase in loan yields and and decrease in cost of deposits, while cost to income ratio decreased by 3.9 pp to 37.8%. Over the same period, the increase in cost of risk by 0.4 pp to 1.6% was mainly due to currency depreciation and remained broadly stable without FX affect. As a result, our underlying return on equity stood at 22.8% well above our medium term target of more than 20%, while our underlying return on assets stood at 3.3%.

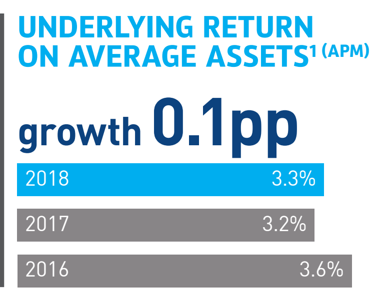
In 2018, our loan book grew by 21.3% leading to the market share of 38.8% up by 0.6 pp year-on year. Our capital positions remains solid, with total tier 1 and total capital ratios standing at 12.8% and 17.9% respectively above the corresponding minimum requirements of 11.8% and 16.7%.

We also achieved strong performance in digitalization: our offloading ratio increased by 2.3 pp and stood high at 90.6%, while our mobile banking penetration and mobile&internet banking penetration ratios grew year-on-year and amounted to 37.0% and 43.7% respectively. We are also proud to maintain our leading position as the Best Service Provider in Georgia. Furthermore, our employee engagement index and net promotor score remain exceptionally high.





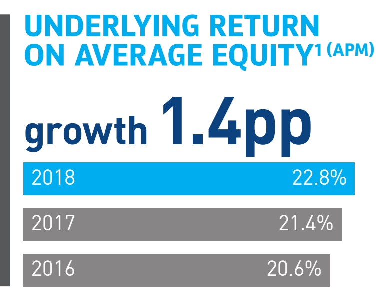


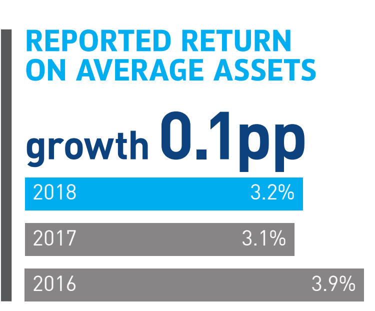


COST TO INCOME

reduction **3.9pp**

2018	37.8%
2017	41.7%
2016	45.8%





TOTAL CAR (BASEL III)[2]

growth **0.4pp**

Year	Value
2018	17.9%
2017	17.5%
2016	14.2%

EMPLOYEE SATISFACTION[4]

ENPS

growth **11pp**

Year	Value
2018	66%
2017	55%
2016	44%

RETAIL TRANSACTIONS OFFLOADING RATIO

growth **2.3pp**

Year	Value
2018	90.6%
2017	88.3%
2016	84.1%

TIER 1 CAR (BASEL III)[2]

reduction **0.6pp**

Year	Value
2018	12.8%
2017	13.4%
2016	10.4%

EMPLOYEE SATISFACTION[4]

Engagement index

reduction **4pp**

Year	Value
2018	87%
2017	91%
2016	88%

MOBILE BANKING PENETRATION RATIO

growth **5.6pp**

Year	Value
2018	37.0%
2017	31.4%
2016	24.2%

LOAN BOOK MARKET SHARE[3]

growth **0.6pp**

Year	Value
2018	38.8%
2017	38.2%
2016	38.9%

CUSTOMER EXPERIENCE[5]

The best service provider in Georgia

reduction **3pp**

Period	Value
Dec 2018	50%
Feb 2018	53%
2016	N/A

MOBILE AND INTERNET BANKING PENETRATION RATIO

growth **3.3pp**

Year	Value
2018	43.7%
2017	40.4%
2016	36.6%

1 More information about underlying figures (APMs) is given in Annex 1 on page 106
2 2016 figures are given per old NBG regulation, which was effective till December 2017 and was calculated in accordance with Basel II/III guidelines. Therefore, they are not comparable with 2017 and 2018 figures
3 Based on data published by National Bank of Georgia as of 31 December 2018
4 Employee Net Promotor score and Employee Engagement Index were measured by an independent consultant
5 Based on survey conducted by independent research company IPM among retail segment in December 2018. The data for 2016 and 2017 is not available as we started conducting this survey in February 2018

OUR CUSTOMERS AND VALUE PROPOSITION

- Our retail banking offers a wide and diverse range of products to mass retail clients through our advanced omni-channel platform, creating an exceptional customer experience. We also provide a highly personalized private banking and sophisticated investment management products to our affluent and high net-worth individuals
- Our corporate and investment banking supports large and mid-sized corporates by providing a full range of banking products and services, as well as brokerage, financial advisory and investment banking solutions
- Our MSME banking serves micro, small and medium-sized businesses, as well as start-ups by offering them the most comfortable and innovative banking solutions together with extensive non-financial services through our renowned business support program

HOW WE GENERATE PROFIT

- Our omni-channel platform, with strong focus on digital capabilities, drives higher sales of our financial products as well as greater operational and transaction volumes
- Utilising big data analytics to ensure greater cross-selling and client engagement
- Core banking products are complimented with fee-based and innovative services
- A prudent risk management based on stringent internal controls and an integrated IT infrastructure
- An efficient business model across all channels focused on effectiveness and productivity

HOW WE SHARE VALUE WITH OUR STAKEHOLDERS

- Generate robust and long-term sustainable returns for our shareholders
- Provide well-suited solutions and superior customer experience for our customers
- Offer challenging and rewarding careers for our colleagues
- Support community through a wide range of CSR activities
- Preserve Georgia's cultural heritage and environment

OUR STRATEGY

Our strategy is to be the best bank for people and businesses as well as an innovation leader in Georgia, and the broader region, to create value for all our stakeholders and to develop our business sustainably. Our strategy is constantly evolving to address new challenges and capture new opportunities in the market as they arise.

We have begun developing digital ecosystems around our customers to ensure that we integrate better in their everyday lives. In this regard, we have made certain progress to develop a housing and e-commerce ecosystems, which will be followed by more ecosystems in 2019. We leverage on our superior customer experience and advanced digital capabilities when pursuing this venture.

Another important initiative is to implement an agile transformation across the bank in order to be able to react quickly to the fast-changing market environment and build a competitive advantage.

In parallel, we are actively developing our financial services. We are enhancing our core banking products through expansion of new commission-based businesses, where we see significant growth opportunities, such as insurance, cards business, brokerage and investment banking as well as trade finance (for more details please see our divisional reviews section).

We continue to improve our efficiency through various initiatives while maintaining a prudent risk management system.

OUR STRATEGIC PRIORITIES / PROGRESS IN 2018

Maintain our leadership position and deliver sustainable growth

We aim to retain our leadership position and grow together with the market, while maintaining high profitability level.

- Total loan book grew by 21.3% YoY increasing our market share in total loans by 0.6 pp to 38.8%
- Underlying Return on Equity [1] (ROE) increased by 1.4 pp YoY and stood at 22.8%, while reported Return on Equity increased by 1.1 pp YoY and stood at 22.0%

Enhance our value proposition by building customer focused ecosystems

We aspire to create maximum value for our customers by providing them with a full range of financial products and services in the most convenient way, as well as creating additional services that customers need on a daily basis and that are linked to our core activities.

- Acquired Swoop, a well-known online discount and sales company in Georgia, to build an e-commerce market place in the country through the development of an innovative digital trading platform, Vendoo.
- Acquired 90% stake of the Georgian real estate digital platform Allproperty.ge. The goal is to develop a full range of real estate services required by home buyers, from the point of selecting the property to moving into it.

Further enhance our digital capabilities

As digital innovators we constantly fine-tune our digital offerings with an intuitive design and new features as more and more customers are moving to our digital channels.

We are also actively engaged with our young and digitally-savvy customers in order to develop the most innovative and modern solutions that meet their needs for high-tech products and services.

- Mobile banking penetration ratio increased by 5.6 pp YoY to 37.0%
- Maintain offloading ratio as high as 90.6% up by 2.3 pp YoY
- Launched Space, Georgia's first fully digital bank (for more details please see page 44)

Maintain robust profitability and margins

We have launched the advanced analytics program across the Bank to sustain margins by conducting proper customer segmentation and pricing, as well as targeting the right product mix.

- NIM improved by 0.4 pp YoY and stood at 6.9%

Agile transformation and investment in human capital

We realise the importance of a flexible organisation structure in today's fast changing market environment, where companies need to be able to quickly adapt and respond to the evolving business needs.

Therefore, this year we have initiated the enterprise-wide agile transformation process and plan to roll it out across the entire bank in several waves during 2019.

We continue to invest in our employees focusing on their development, satisfaction and wellbeing.

- **Designed agile transformation detailed plan and targets**
- **Created a top-management transformation team to lead the change**
- **ENPS and Engagement index reached 66% and 87%, up by 11pp and down by 4pp respectively**

Improving efficiency and competitiveness

We aspire to achieve the best-in-class operational cost levels in a sustainable way by leveraging on our strong digital capabilities and customer centric approach.

In 2018 we launched several initiatives in this respect, including a branch optimization project which envisages moving from a product-centric service model to a client-centric service one. We have also developed a plan for back office processes optimization.

- **Cost to income ratio decreased by 3.9 pp YoY and stood at 37.8%**
- **Cost per asset ratio decreased by 0.1 pp YoY and stood at 3.0%**

Further improve customer experience

We dedicate significant time and effort to explore our clients' banking needs and preferences and to constantly transform our products and services in order to deliver outstanding experience in all our channels.

Our customers' interest are our top priority and we are committed to making their lives easier by acting as their trusted partner, who is always ready to help.

- **Named "The Best Service Provider in Georgia"[2]**

1. More information about underlying figures (APMs) is given in Annex 1 on page 106
2. Result of a survey conducted by the independent research company IPM among retail segment in December 2018

EMBARKING ON NEW CHALLENGES – INTERNATIONAL EXPANSION

In 2018 we added as a new strategic priority - the expansion of our international presence by taking a careful approach to entering selected new markets. Our extensive banking expertise and advanced digital capabilities put us in a strong position to capture new growth opportunities and generate high returns. Our strategy is to follow a cautious, asset-light, limited capital investment approach with a strong focus on digital channels. Furthermore, we aim to invest further capital subject to achieving milestones in stages to make sure that we are comfortable with the results and the operating environment before committing additional investment. If and where relevant, we will engage with our partner IFI institutions.

AZERBAIJAN

In January 2019, TBC Bank signed a shareholder agreement with Azerbaijan's Nikoil Bank aimed at developing the business in the country and merge TBC Bank's Azerbaijani subsidiary, TBC Kredit, with Nikoil Bank. The transaction is subject to the approval of all relevant authorities. After the completion of the transaction, TBC Bank would own 8.34% of the merged entity with the option to bring its shareholding to 50%+1 shares within 4 years, based on fixed price formula.

TBC Bank would be represented on the board of Nikoil Bank and, together with the Nikoil management, would play a crucial role in the development and execution of the merged entity's strategy. TBC Bank intends to use its banking expertise in Georgia, including its newly-launched fully-digital bank, Space, to support Nikoil Bank's local growth in its targeted retail and MSME customer markets.

WHY AZERBAIJAN?

- Underpenetrated retail and MSME banking segment and a large, untapped population base of around 10 million
- Less developed banking products compared to Georgia and low level of digitalisation of the banking sector
- Strong market expertise, since TBC Bank is present on the Azerbaijan market since 2008 via its subsidiary, TBC Kredit

CURRENT PROGRESS

- In 2018, Nikoil Bank's main shareholder recapitalised the bank by investing US$ 75 million
- Strengthened management team of Nikoil Bank by appointing several executives including the COO, CFO, CRO and CDO
- Started to develop and implement the new strategy of the merged entity
- Initiated improvement of governance and risk management system

MID-TERM TARGETS AND INVESTMENT PLAN

Targets for 2021:

- Achieve a loan book of around US$ 1,400 million
- Achieve equity of around US$ 200 million
- Generate ROE of above 20%

4-year investment plan

- TBC Bank will be investing, consistent with its 8.34% shareholding, between three and five million US dollars per year, subject to reaching appropriate KPIs by the merged entity

UZBEKISTAN

In 2018 we started to explore the Uzbekistan market and develop a strategy for entry into it. The plan is still in its conceptual phase and subject to approvals, including from the local authorities. Therefore, the project could change as we progress.

We aspire to build a greenfield, next generation bank for retail and MSME customers with a primary focus on digital channels including our fully-digital bank Space. We also plan to operate smart, asset-light branches with digital offerings.

We would like to establish the bank in partnership with international financial institutions and a local partner. Our plans foresee a minimum 51% shareholding and an initial investment of US$ 20-30 million. We have already secured interest from EBRD and IFC and we are in the process of finding a local partner.

WHY UZBEKISTAN?

- A very attractive market with a large and growing population of 32 million and with retail and MSME loans to GDP ratio[1] of below 5% as of the end of 2017
- Shared history and good cultural links
- Right time given the ongoing reforms process with the involvement of former Georgian government officials
- Both Uzbekistan and Georgia are included into China's One Belt One Road initiative

CURRENT PROGRESS

- Opening pilot branch in March 2019 for a proof of concept
- Implementing core banking with local IT company
- Developing multichannel including Space

MEDIUM TO LONG-TERM FINANCIAL TARGETS ONCE THE LICENSE IS GRANTED

- Achieve sustainable ROE up to 25%
- Cost to income ratio below 35%

OUTLOOK FOR 2019

Going forward, we will continue to concentrate our efforts on implementing our digital strategy and building ecosystems as well as further enhancing our leadership position in terms of customer experience. At the same time, we will carry on with our agile transformation, improving data analytics capabilities and further optimising our cost structure. In terms of international expansion, we will closely monitor the implementation of our strategy in Azerbaijan and aspire to secure banking license in Uzbekistan by the end of 2019 and launch our operations there. We expect that our Uzbek and Azerbaijan subsidiaries together will contribute c. 30% to the Group's loan book in medium to long term.

1 Source: CBU and commercial banks

TBC BANK'S NEW HEAD OFFICE

Tbilisi Business Centre is the name of TBC Bank's new head office, a unique combination of a cultural hub and an innovation lab. With its contemporary design, the complex will be energy efficient and will incorporate innovative technologies. Providing an ecologically clean environment with greenery and varied recreational zones, the Tbilisi Business Centre proposes a transition from a traditional closed and introverted working model, towards a flexible, open and more comfortable working environment. The design of the new head office was inspired by the traditional Georgian "Shatili" towers, where the terraced layout and large balconies of the architectural structures harmoniously merge with the landscape. The design of the new head office is by the international architecture firm, UNStudio, founded by Ben van Berkel. The opening of the complex is scheduled to take place within three years.

"We are building a completely new type of complex that has no equivalent in Georgia. While working on the concept for the new head office we incorporated TBC Bank's strategy, vision and core values. The project will also serve as a catalyst for the development of a new area of the city, promoting socio-economic development through the creation of a financial knowledge centre and an innovation platform" – commented Frans van Vuure, Director and Senior Architect at UNStudio.

RETAIL BANKING

2018 HIGHLIGHTS

40.0%
RETAIL LOAN MARKET SHARE[1]

41.2%
RETAIL DEPOSIT MARKET SHARE[1]

45.3%
RETAIL LOAN SHARE IN TOTAL PORTFOLIO

54.6%
RETAIL DEPOSIT SHARE IN TOTAL PORTFOLIO

c. 2.3 million customers
AROUND 83% OF ADULT POPULATION IN GEORGIA

90.6%
OFFLOADING RATIO

OVERVIEW

TBC Bank is the leader in Georgia's retail banking segment, ranking first in terms of both deposits and loans, with market shares of 41.2%[1] and 40.0%[1] respectively. We operate a customer-centric service model and offer our clients a full range of banking products through our advanced omni-channel distribution platform with strong focus on digital channels. As a result 90.6% of our transactions are conducted remotely with Internet and mobile banking applications being our customers' most preferred communication channels. As the country's leading service provider in retail banking, we differentiate ourselves by our exceptional customer experience, world-class digital channels, most trusted brand and advanced analytical capabilities.

PROGRESS AGAINST STRATEGIC PRIORITIES IN 2018

Priority	Progress
Further enhance our customer experience	The best service provider in Georgia[2]
Continue to innovate and offer the most up-to-date digital solutions on the market	Introduced an innovative and safe way of transferring money via chat extension,Ti-Transfer Enriched our products offering via Internet and mobile banking applications *Please see below for more information*
Increase the number of customers in the affluent segment	Number of TBC Status customers increased by 36.1% YoY and reached up to 41,000
Increase assets under management in the high-net-worth individuals (HNWI) segment	Assets under management[3] in HNWI segment increased by 9.8% YoY to GEL 2,151 million

1 Based on data published by the National Bank of Georgia as of 31 December 2018; in this context retail refers to individual customers
2 Based on survey conducted by independent research company IPM among retail segment in December 2018
3 AUM includes deposits, bonds and equity shares

OMNI-CHANNEL DISTRIBUTION PLATFORM

c.529,000 internet or mobile banking users

The award-winning Internet and mobile banking applications

c.17,000 POS terminals and c.3,300 self-service terminals

The wide network of POS and self-service terminals

95% of our customers answered within 15 seconds

The best-in-class call center with first voice biometric recognition system (c. 231,000 voicprints taken)

c.1,200 ATMs

The largest ATM network in Georgia together with partner banks

149 branches

The wide network of branches with a customer centric design

c.241,000 users

The first Georgian-speaking chat-bot, Ti-Bot, available through Facebook Messenger

RETAIL SUB-SEGMENTS

We serve more than 2.3 million retail customers, accounting for about 83% of the total Georgian adult population. In order to serve our clients more effectively, we have grouped our retail customers into three sub-segments: high-net-worth individuals (HNWI), affluent customers (TBC Status), and mass retail. This allows us to offer the most comfortable banking experience to each customer.

	Mass retail	TBC Status	HNWIs
Number of clients	c. 2.3 million	c.41,000	c.2,400
Loan book share	51.1%	46.4%	2.5%
Deposit share	38.7%	30.6%	30.7%
Cross-selling ratio	3.65	8.55	6.51

TBC Bank was the first bank to introduce private banking services in Georgia more than 10 years ago and to establish high standards of service. We strive to be the first choice for private banking customers and are committed to gaining a deep understanding of clients' needs and goals in order to provide them with complete and personalised range of solutions and to build a lifelong partnership. In recognition of our continuous efforts to deliver exceptional private banking services, in 2018 TBC Bank was named the Best Private Bank in Georgia by the Professional Wealth Management (PWM) and The Banker magazines for the fourth time.

TBC STATUS

TBC Status serves around 41,000 affluent customers in Georgia and provides them with special banking experience tailored to their specific needs. Our value proposition is comprised of:

- individual approach and long-lasting relationship;
- exceptional customer experience;
- highly professional and experienced personal bankers;
- personalised banking products and services;
- dedicated multi-channel with extended capabilities and a strong digital focus;
- various lifestyle offerings through TBC Status concierge;
- exclusive events and special discounts for the country's main cultural events, including TBC Bank's annual Jazz Festival.

As our customers' comfort is of utmost importance for us, we continually upgrade our digital offerings and allow them to conduct most of their daily transactions remotely. As a result, the mobile and Internet banking penetration level stood at as high as 82.7% among Status clients as of 31 December 2018 up by 3.5 pp compared to a year earlier.

1 Based on management accounts

Should customers need a personal consultation with their banker, they are attended to in a comfortable service space designed especially for them. We have around 70 TBC Status areas in 27 branches.

Highlights[1]

2,158 mln

up by 38.7% YoY - TBC Status loan book

1,563 mln

up by 23.9% YoY - TBC Status deposit book

HIGH-NET-WORTH INDIVIDUALS (HNWI)

We serve more than 2,400 HNW resident and non-resident individuals from over 40 countries. We provide our HNW customers with tailor-made banking products and services, as well as advise them in relation to various investment opportunities in Georgia. We also have a representative office in Israel, TBC Invest, which allows us to attract non-resident clients from Israel more effectively.

We serve our high-net-worth clients in VIP service areas, which combine luxury, comfort and privacy. Most experienced personal bankers act as consultants and wealth planners to build lifelong relationships with our high-net-worth clients.

We offer our HNWI sophisticated brokerage and investment banking services through our wholly owned subsidiary, TBC Capital. In 2018, the majority of bonds issued by TBC Capital were acquired by our HNW individuals, which allowed them to diversify their investments. In addition, we have also developed an exclusive investment product in partnership with LS Opportunities Fund - Frontier Senior Income (FSI), a Luxembourg-domiciled investment vehicle managed by Thales Investments. The fund invests in a well-diversified portfolio, with strictly controlled credit and operational risks.

MAIN ACHIEVEMENTS IN 2018

- In 2018, our retail loan book grew by 18.1%[2] to GEL 4,699 million, mainly driven by an increase in mortgages, which represented 57.7% of the retail book. Slowdown in consumer lending is attributable to the reduction in the unsecured loan portfolio related to NBG regulation adopted in May 2018. Over the same period retail deposits increased by 16.6% to GEL 5,104 million, supported by the growth of both term and current and savings accounts. More information about the financial performance of the retail segment is provided under the section "Financial Review" on pages 90 to 106.

- In order to optimise the operational costs we started a branch optimization project which foresees switching the service model, from product-centric to customer-focused. The plan is to replace existing branch positions with universal sales staff – financial advisors and service managers – for a more integrated customer relation system. In 2018 the project was piloted in two branches and we are planning to roll out this model across all TBC Bank branches.
- In terms of digitalization, we have achieved outstanding results in 2018:
  - During the year several new products were added to the Internet and mobile banking applications including: renewal and limit change of credit cards, purchase of payment protection insurance and car accident risk insurances, purchase of car parking permit and automatic payment of car fines.
  - By the end of the year, our mobile banking penetration increased by 5.6 pp and reached 37.0%, while our mobile or Internet banking penetration level grew by 3.3 pp and totaled 43.7%.
  - We also pride ourselves that in 2018 our Internet bank has been named the world's "Best Integrated Consumer Banking Site" by Global Finance magazine in addition to multiple digital country and regional (CEE) awards.
- Ti-bot, the first Georgian-speaking chatbot, is increasingly popular among our clients. Since March 2018 Ti-bot has received around 14.4 million messages and attracted around 241,000 customers. In addition to the simple transactions that Ti-bot can perform, in 2018 we added an innovative and safe money transfer system via chat extension, Ti-Transfer. Developed in partnership with industry leader Pulsar Al, Ti-transfer has already gained international recognition and it was named "Best Alternative Payments Project" at the Payments Awards ceremony organised by FStech and Retail Systems.
- We have also achieved strong results in the card business:
  - After the successful launch of a new loyalty programme in 2017, Ertguli, our credit card sales continue to increase and our market share reached 44.9%[3] by the end of 2018.
  - On the debit card side, in August 2018 we launched a new product-"My Payroll Card", for payroll and self-employed customers, who receive their salaries by cash or in another bank and are not inlcuded in our standard payroll programme. This card allows such customers to accumulate their monthly income and to benefit from simplified procedures in case they need credit products. The card proved to be successful and since its introduction we issued more than 26,000 cards.
  - We are also increasing our engagement with younger Georgians by offering them special youth cards tailored for their needs. We have partnership agreements with all large universities in Georgia covering around 48.0% of all students in Georgia.
  - Additionally, at the end of 2018 we introduced gift cards in collaboration with Georgia's largest shopping centres.
- We continue to leverage on our advanced data analytics capabilities and during 2018 we implemented a thorough market study across the globe in order to identify best practices for analytics use cases and assessed their relevance for TBC Bank. Based on our analysis, we identified relevant use cases for each division and developed the roadmap for the next 3 years. The first project was implemented in November 2018 and envisaged optimizing consumer credit pricing and credit limit management in order to improve profitability in consumer lending. We plan to launch more projects during 2019. In parallel, we are building strong in-house analytical team by recruiting and training the best talents and we are developing big data infrastructure.

STRATEGY 2019

- Strong focus on customers: develop value added services around our customer sub-segments in order to increase their engagement and customer experience
- Continue to strengthen our technological leadership by introducing the most innovation digital solutions on the market
- Transform into data driven company and further develop our advanced data analytical capabilities in order to increase our profitability and efficiency levels, as well as increase customer experience and engagement

2 Growth without re-segmentation effect - In Q1 2018, GEL 236 mln was transferred from retail to MSME portfolio
3 Based on NBG data

“Ti Bot is the perfect partner for the young generation. I have been using it since its launch as it allows me to perform daily banking transactions, such as mobile top up and P2P transfer in very simple and interactive way. I especially enjoy communicating with Ti Bot though sending voice messages, as I am always in a hurry and need to get information quickly,”

Rima Tsagareishvili,
Branch manager at Yves Rocher cosmetic store

“I am very excited about Ti Bot as it is fun and easy to communicate with. Conducting banking operations through Facebook messenger suits perfectly young people who spend a great deal of time on Messenger and feel much more comfortable chatting with Ti Bot rather than logging on to a mobile banking application. My favorite feature is the latest addition, Ti transfer, which allows me to send money to my friends, while talking with them in messenger without leaving the conversation”.

Zviad Tatunashvil,
Philology student at Tbilisi State University,

THE YOUNG GENERATION BEFRIENDS TI-BOT

Ti Bot is the first Georgian-speaking chatbot available via Facebook messenger. It is an innovative and fun channel, which allows our customers to perform simple banking transactions, as well as provides useful information about TBC Bank products, entertainment events and weather forecast. We value our clients' feedback to add new features and capabilities in order to constantly improve the customer experience. For this purpose, we have created a special Facebook group where our digital savvy customers can send their recommendations and comments about our Ti Bot.

Rima Tsagareishvili is a branch manager at Yves Rocher cosmetic store and an active contributor to our Facebook group. She is actively involved in testing our Ti Bot and provides valuable insights.

Zviad Tatunashvil, a Philology student at Tbilisi State University, helps us in testing Ti Bot by providing useful suggestions on how to make it better.

CORPORATE INVESTMENT BANKING (CIB)

2018 HIGHLIGHTS

37.4%
CORPORATE LOAN MARKET SHARE[1]

41.2%
CORPORATE DEPOSIT MARKET SHARE[1]

47.4%
CORPORATE GUARANTEE MARKET SHARE[1]

30.6%
CORPORATE LOAN SHARE IN TOTAL PORTFOLIO

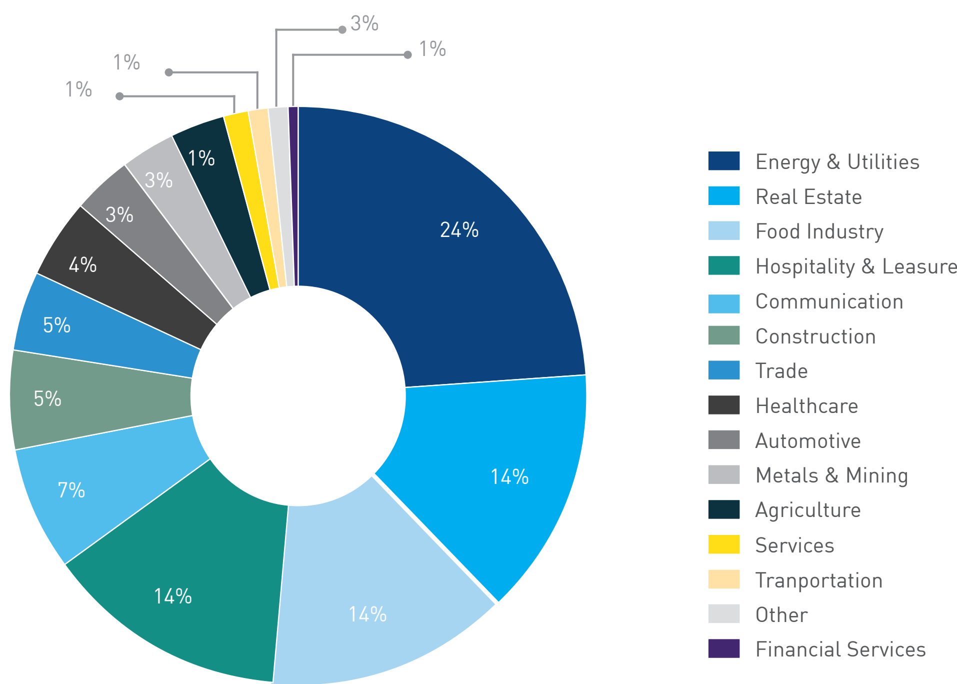
34.5%
CORPORATE DEPOSIT SHARE IN TOTAL PORTFOLIO

c.2,800
NUMBER OF CUSTOMERS

OVERVIEW

TBC Bank is the market leader in the corporate segment in Georgia, leading in all core corporate banking products including loan, deposit and guarantee portfolios. We serve more than 2,800 corporate clients and have a well-diversified portfolio with strong presence in all sectors of the Georgian economy. We employ more than 120 highly skilled banking professionals with deep and extensive sector knowledge. Our bankers offer tailor-made solutions to the businesses and seek to optimise their financial and capital structure as well as assist them in growing and developing their businesses. To respond to the more sophisticated product requirements of our clients, we are also actively developing investment banking services through our wholly owned subsidiary TBC Capital. We differentiate ourselves through an advisory-focused business model, an exceptional customer experience, an advanced trade finance and strong project finance/syndication capabilities, as well as highly experienced and professional team.

Corporate loan book breakdown by sectors



PROGRESS AGAINST STRATEGIC PRIORITIES IN 2018

Priority	Progress
Further accelerate the development of the capital markets and investment banking business in Georgia and increase our footprint in this area in the region	The bonds issued and listed by TBC Capital increased by 400% YoY and amounted to GEL 305 million, which represented 55% of total bonds issued and listed on Georgian Stock Exchange in 2018
Further strengthen our coverage in Georgia's regions and in the mid-corporate segment	Credit portfolio and net interest income of such customers grew by 28.4% and 29.4% YoY respectively
Increase penetration of corporate clients through the TBC Bank's services and products	The volume and number of POS transactions of our corporate clients grew by 156% and 145% YoY respectively

1 Based on data published by the National Bank of Georgia as of 31 December 2018; in this context corporate refers to legal entities

MAIN ACHIEVEMENTS IN 2018

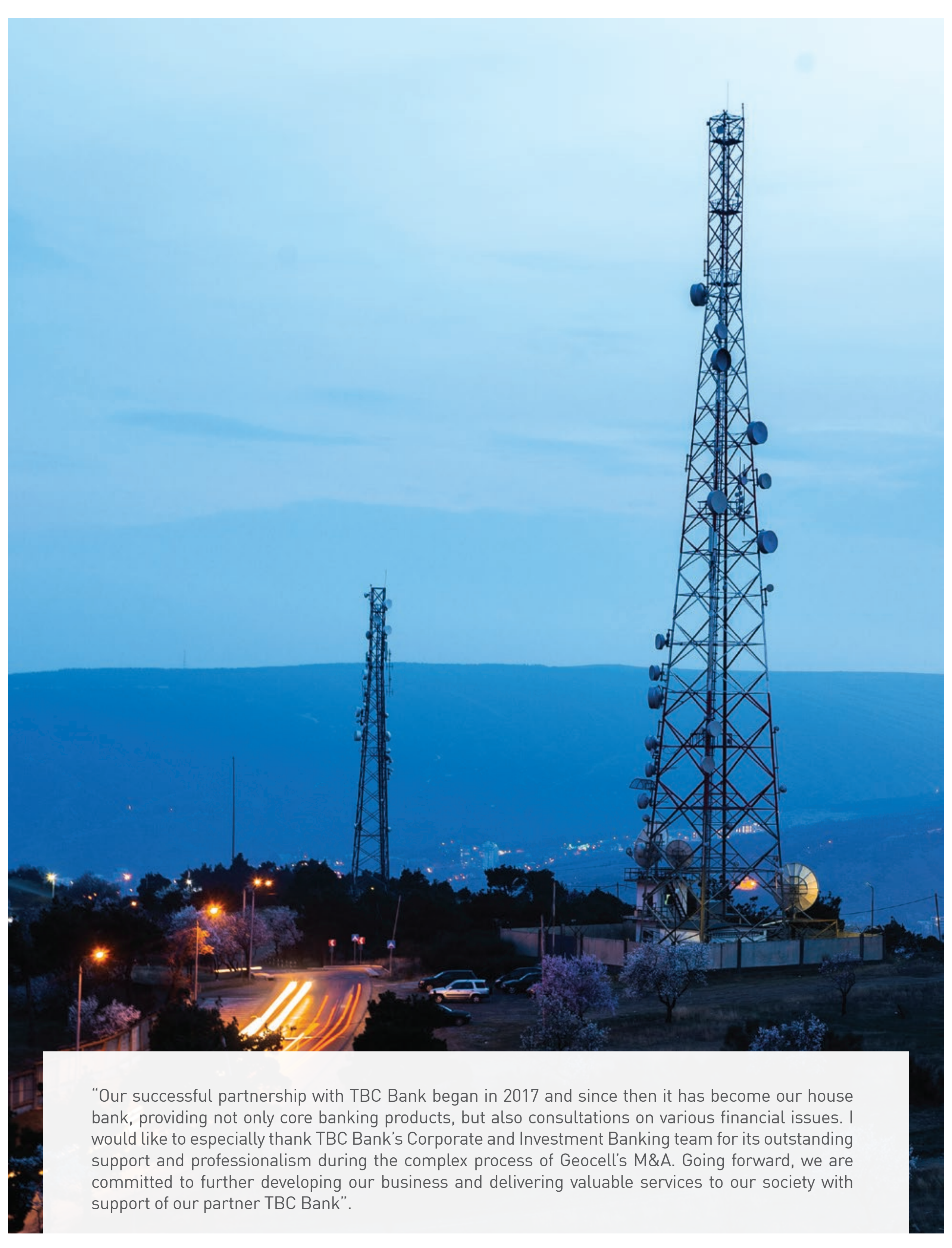
- In 2018, we achieved outstanding results in terms of client acquisition in both the large and mid-corporate segments. Our corporate loan book grew by 24.6%[1] YoY and reached GEL 3,177 million leading to a market share of 37.4% up by 1.4pp. Corporate deposits increased by 29.0%[2] YoY and reached GEL 3,231 million resulting in a market share of 41.2% up by 3.3pp. More information about the financial performance in the corporate segment is provided under section "financial review" on pages 90 to106.
- In 2018, TBC Bank served as the sole mandated lead arranger for the largest M&A transaction in Georgia, which allowed us to position ourselves as a large project acquisition powerhouse. Silknet, Georgia's leading telecommunications operator, acquired Geocell, the country's second largest mobile operator for US$ 151.7 million. The transaction was the Georgia's largest syndicate consisting of nine participants, including Georgian and regional banks, as well as the largest debt facility arranged from local banks amounting to US$ 133 million. Out of the total financing, US$ 10 million was raised in bonds and TBC Capital acted a sole lead arranger of private bond placement.
- In 2018, our guarantee portfolio increased by 51.1% YoY and reached GEL 1,301 million, leading to a market share of 47.4%[3]. The prestigious international awards have recognized our strong trade finance capabilities: the Asian Development Bank named TBC Bank "Leading Partner Bank in Georgia in Trade Finance 2018", while Global Finance awarded us "The Best Trade Finance Provider in Georgia 2019".
- In terms of investment banking activities, in 2018 we completed several notable transactions. TBC Capital was the sole lead arranger for Silknet[4], Nikora Trade[5], TBC Leasing[6], Lisi Lake Development[7], Georgian Beer Company[8], BSTDB and FMO bonds via public and private placements. The bonds issued and listed by TBC Capital during the year increased by 400% YoY and amounted to GEL 305 million, which represented 55% of total bonds issued and listed on Georgian Stock Exchange in 2018. During the year, TBC Capital also served as advisor to Georgian Beer Company[8] and Lisi Lake Development to obtain and maintain a global credit rating. Furthermore, TBC Capital published two comprehensive research reports: Fixed Income Securities in Georgia and Georgian FMCG Sector Analysis. The full reports can be viewed at www.tbcresearch.ge under TBC Capital Reports section. In recognition of our efforts, in 2018 EMEA Finance magazine named TBC Bank "Best Investment Bank in Georgia 2017" and TBC Capital the "Best Broker in Georgia 2017."
- Our client-centric approach and tailor-made product offerings were translated into a strong cross-sell platform for our corporate clients. The number of corporate clients' payroll accounts increased by 16% YoY and reached 148,000, while payroll fund went up by 30% YoY totaling GEL176 million. Over the same period, the number of POS transactions grew by 145% YoY to 62 million, while the respective volumes went up by 156% YoY and reached GEL 2,625 million.

STRATEGY 2019

- Further increase penetration of corporate clients by providing them with tailor-made solutions
- Further strengthen coverage of Georgian regions and growing mid-corporate segment
- Further enhance the role of TBC Capital in the development of capital market in Georgia

1 Growth without re-segementation effect - In Q1 2018 GEL 66 was transferred from MSME to corporate loans
2 Growth without re-segmentation effect - In Q1 2018, GEL 78 mln was transferred from MSME to corporate deposits portfolio
3 Based on data published by National Bank of Georgia as of 31 December 2018
4 Silknet is a leading telecommunication company in Georgia.
5 Nikora Trade is a leading food producer company in Georgia.
6 TBC Leasing is a leading leasing company in Georgia and a subsidiary of TBC Bank
7 Lisi Lake Development is a leading developer company in Georgia.
8 Georgian Beer Company is a leading producer of beverages in Georgia

TBC CAPITAL
GEORGIAN
FMCG
SECTOR
ANALYSIS



“Our successful partnership with TBC Bank began in 2017 and since then it has become our house bank, providing not only core banking products, but also consultations on various financial issues. I would like to especially thank TBC Bank’s Corporate and Investment Banking team for its outstanding support and professionalism during the complex process of Geocell’s M&A. Going forward, we are committed to further developing our business and delivering valuable services to our society with support of our partner TBC Bank”.

Davit Mamulaishvili,
CEO of Silknet

SILKNET/GEOCELL - GEORGIA'S LARGEST M&A TRANSACTION

Silknet is one of the country's largest provider of telecommunication services. The company offers a wide range of telecommunication products including Internet, TV and fixed telephone services to corporate and individual clients.

In March 2018, Silknet acquired a 100% holding in Georgia's second largest mobile operator, Geocell LLC. The acquisition was valued at US$ 151.7 million, making it the largest M&A transaction ever on the Georgian market. The transaction creates a major convergent telecom operator in Georgia with Internet and fixed telephony subscribers' market shares of 34% and 51% respectively[1]; it will also provide Georgian consumers with an enhanced access to voice and data services as well as exclusive global content.

TBC Bank acted as a sole mandated lead arranger for financing this transaction through organizing the largest debt facility in Georgia, amounting to US$ 133 million. It was also Georgia's largest syndicate consisting of nine participants including local and regional banks. In addition, TBC Capital, our wholly-owned subsidiary, acted as a sole lead arranger for a private bonds placement in the amount of US$ 10 million. Through this transaction TBC Bank positioned itself as a large acquisition powerhouse.

1 Data as of 31 December 2018, Source: www.gncc.ge

MICRO, SMALL AND MEDIUM ENTERPRISES SEGMENT

2018 HIGHLIGHTS

65%[1]
OF NEWLY REGISTERED LEGAL ENTITIES CHOSE TBC BANK

c.130,000
CUTOMERS

24.1%
MSME SHARE IN TOTAL LOAN BOOK[2]

92.5%[2]
OFFLOADING RATIO OF MSME

10.9%
MSME SHARE IN TOTAL DEPOSIT PORTFOLIO

78%[3]
NPS

OVERVIEW

We are the leading partner bank for micro, small and medium enterprises (MSMEs) in the country. In 2018, 65% of all newly registered legal entities in Georgia chose TBC Bank. Our key differentiators are an exceptional customer experience, best in class financial products and services, extensive business support programme, as well as innovative solutions. We are the only bank in the region[4] offering fully digital on-boarding, which enables legal entities to become our customer by registering online at www.businessregistration.ge. In December 2018, the fully digital on-boarding ratio was 16%. In addition, our strong digital channels enable our customers to conduct most of their transactions online: as a result, the offloading ratio stood as high as 92.5% by year-end. We also pride ourselves on our NPS score[3] of 78%, significantly higher than our peer bank.

PROGRESS AGAINST STRATEGIC PRIORITIES IN 2018

Priority	Progress
Continue to improve our superior customer experience	Our NPS score[3] increased by 4pp YoY
Further develop our flagship business support programme	Launched an innovative B2B platform for businesses (www.businesstool.ge) *Please see below for more information*
Maintain our focus on digitalization by further enhancing our multichannel platform	Upgraded our award-winning Internet banking for legal entities with new features and intuitive design to make it much easier to use

1 Data is for FY 2018, source: www.napr.gov.ge, the National Agency of Public Registry
2 Excluding cash transactions
3 Based on survey conducted by independent research company IPM among MSME segment in October 2018
4 Region in this context comprises Azerbaijan, Armenia and Georgia

BUSINESS SUPPORT PROGRAMME

We are the only bank in Georgia offering a full-scale business support programme, which includes educational resources and business blog, business support tools, an annual business award and start-up programme. All these services are united on a single platform: www.tbcbusiness.ge.

Within our business education programme, we conduct trainings, run conferences, organise individual consultations as well as regional agro forums. All these services are provided free of charge. The aim is to help entrepreneurs to improve their skills in areas such as management, marketing, finance and taxation that will support them in developing their businesses. The programme was launched in 2013 in partnership with the Asian Development Bank (ADB). During 2018 up to 7,500 business individuals participated in this programme.

We remain committed to supporting early-stage businesses and continue to roll our new offerings within our innovative programme "Startaperi", which was launched in 2017. Startaperi aims to create more successful startups in Georgia by supporting them with easily accessible capital, a digital platform for advertising campaigns, as well as various educational programmes and conferences. Currently, we offer three types of loans for start-ups: a general loan, a specific one for hotels, and special one for agro businesses. The programme has gained tremendous popularity and attracted around 24,000 companies since launch. Throughout 2018, we have disbursed loans totaling around GEL 76 million, up by 180% compared to 2017.

To encourage entrepreneurship in Georgia, since 2016 we have been organising the Annual Business Awards ceremony, which has become the major business event of the year in the country, attrackting more than 1,500 community members. This year we added two new nominations, the "Woman Entrepreneur of the Year" and the "Social Impact Award" and announced winners in 6 categories. The event attracted 16 million reach in press and social media while a survey conducted by the independent research agency, ACT, showed that top-of-mind awareness of the project reached 76% in 2018.

MAIN ACHIEVEMENTS IN 2018

- We have achieved strong growth: our MSME loan book increasing by 23.4%[1] YoY to GEL 2,497 million, while our deposit portfolio increased by 8.9%[2] YoY, amounting to GEL 1,018 million. The results were mainly driven by the increase in loans disbursed to businesses operating in the following sectors: agriculture, construction, food industry, hospitality and leisure, as well as services. More information about financial performance of MSME segment is provided under section "financial review" on pages 90 to 106.
- We are the leading partner bank for the government programme, "Produce in Georgia" which aims to support agriculture, manufacturing and hospitality industries. Within the programme, borrowers can apply for a subsidy from the government to lower their interest expense during a grace period. Under this programme, in 2018 we disbursed 64 loans for a total amount of GEL 42 million.
- Internet banking remains the most widely used digital channel, accounting for around 71% of all digital transactions. In 2018 we upgraded our award-winning Internet banking for legal entities with new features and an intuitive design to make it much easier to use. We are also proud that the Global Finance magazine named our corporate digital bank "Best in Social Media Marketing and Services" globally in 2018, a global recognition which was added to our multiple regional (CEE) and country awards in a range of digital banking categories.
- We continue to develop our business support programme and in 2018 we launched an innovative B2B platform for businesses (www.businesstool.ge). This platform creates a marketplace which connects businesses and IT service providers with each other and encourages the development of new software relevant for Georgian businesses. Companies can search, compare and choose the most suitable software for their needs including computer programs, mobile applications or web services. On the one hand, the website supports developers in raising awareness of their products, and on the other hand, the platform helps businesses to automate their processes and increase their efficiency.

STRATEGY 2019

- Build an ecosystem for MSMEs which will encompass a wide range of solutions need by businesses on every stage of their development
- Focus on innovative and digital offerings
- Provide outstanding customer experience across each component of our ecosystem

1 Growth without re-segementation effect - In Q1 2018, GEL 236 mln was transferred from retail to MSME portfolio and GEL 66 was transferred from MSME to corporate loans
2 Growth without re-segementation effect-in Q1 2018, GEL 78 mln was transferred from MSME to corporate deposits portfolio

STARTUP SUPPORT PROGRAM - STARTUPERI

Nino Slepchenko and her husband, Levan Vateishvili run a family start-up business "Saini" and are active members of our "Startaperi" programme. They offer customers a wide range of interior and exterior design options with gorgeous alphabetical ornaments, which include vessels, lamps, decorative mirrors, wall decors, mosaic and ceramic tiles. The source of inspiration for their work became the Georgian alphabet, "Mkhedruli".

"We are very thankful to TBC Bank for organising "Apps Challenge" in Georgia. It is the first IT competition aiming to promote Georgian software applications and motivate young IT companies to create innovative solutions. It is a win-win situation for both IT companies and businesses, since IT systems created by Georgian specialists are tailored on local needs and are cheaper than their foreign equivalents".

Levan Meskhishvili,
founder of System Jet

SYSTEM JET - INTRODUCING TECH INNOVATIONS FOR GEORGIAN BUSINESSES

In 2018 TBC Bank organized its first "Apps Challenge" in partnership with EFSE DF. The aim was to foster the creation of innovative software solutions to simplify and automatise processes for Georgian businesses. Applicants were required to present original ideas and products new to the Georgian software development market. Twenty teams were shortlisted, out of the 78 who participated, and were asked to present their ideas to the jury. In the final round of the contest, three winners were selected and awarded with monetary prizes by EFSE DF.

The first prize went to a start-up company, System Jet, which developed a software enabling beauty salons, aesthetic centers and similar companies to manage their daily activities entirely online. This is the first application in Georgia allowing such businesses to manage their front office activities, to control their internal business processes, as well as to conduct statistical analysis. Some of the features include:

- making reservations in multifunctional calendars;
- sending SMS to the customers;
- tracking client activity in terms of number of visits and amount of money spent;
- controlling flow of money and managing inventory.

System Jet is user-friendly and easy to navigate. The company also offers trainings and maintenance services to its clients. The software was launched in the test mode in March 2018 and is already successfully implemented in around 30 companies.

System Jet plans to use the award to enhance its product with an intuitive design and new capabilities, including financial analysis, CRM features and online training videos. TBC Bank will also support the company in organising training and introductory presentations to potential customers in order to to increase awareness about the application. The company has ambitious plans to scale up its biness to all major cities in Georgia during 2019.

SPACE

2018 HIGHLIGHTS

c.94,000 customers

c.260,000 downloads

4.8 stars of Apple Store

4.6 stars on Google play

OVERVIEW

In May 2018, we launched Georgia's first fully-digital bank, Space. A cutting edge mobile application for managing daily finances, this application challenges and redefines the traditional banking experience by offering a unique customer experience through simple procedures and products, intuitive design, price transparency and instant delivery.

We believe that the young, digitally savvy generation is looking for an alternative to the traditional banking services – simple, quick to use and free from any kind of bureaucracy. Space was created with this idea in mind. In Space, all products and services are distributed just a few clicks away; everything can be done remotely without going to a branch. The application is very intuitive and easy to use. For instance, in order to apply for a loan one just needs to press "+" button, while in order to transfer money one clicks "-" button.

Space was developed over the course of just 15 months by a dedicated team of 35 professionals, in partnership with best-in-class players including Amazon Cloud, Pulsar AI, Mambu, SalesForce and Corezoid.

Since its launch in May 2018 Space has exceed our expectations, attracting around 94,000 clients and 260,000 downloads by the year-end, while the loans disbursed amounted to GEL 15 million as of 31 December 2018.

PRODUCT DESCRIPTION AND ITS MAJOR BENEFITS

As a fully-digital bank, Space has no branches and offers all its products through the mobile application. Should customers have questions, consultations are provided online either via Facebook messenger, an in-app chat, or by telephone. The registration is very easy as one can become a Space client in a few minutes, simply by uploading his/her ID card or passport and a selfie.

Currently Space is offering the following products and capabilities:

- remote account opening;
- consumer loans;
- money transfers;
- bill payments;
- debit cards, it is possible to attach other bank's cards as well;
- online Installments for e-commerce.

The application is a fully cloud solution and is easy to integrate with traditional legacy system.

STRATEGY 2019

- We aim to continue enhancing Space with new products and features and actively involving customers in the development process in order to get instant feedback. We also plan to deploy Space in the Azerbaijani and Uzbekistani markets.

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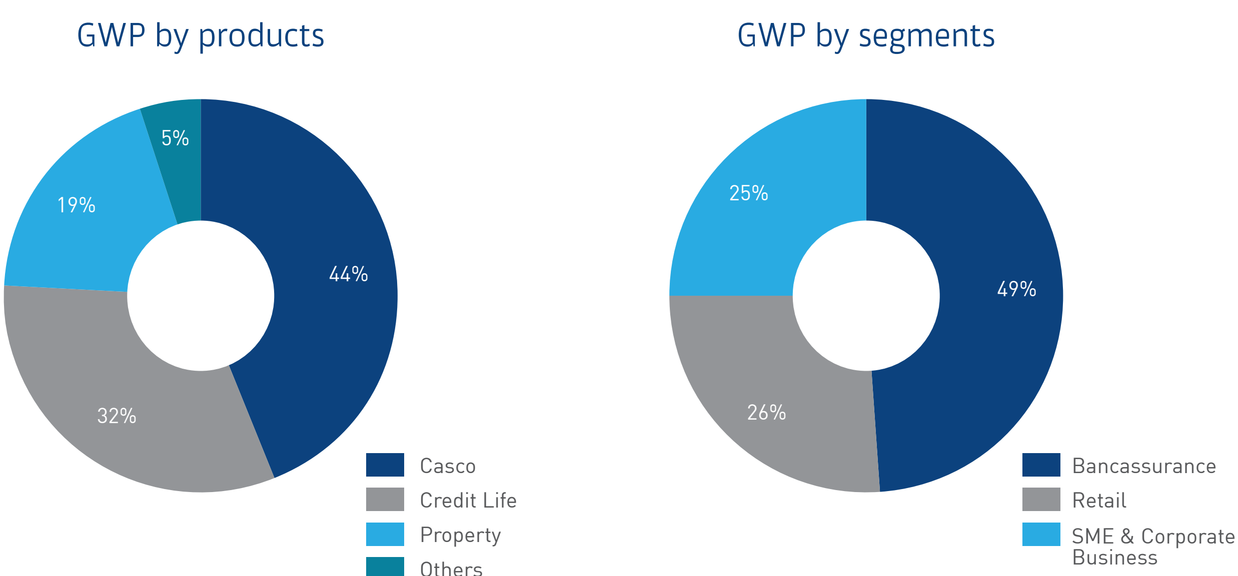
2500
SPACE

SUBSIDIARIES

TBC INSURANCE

TBC Insurance is a rapidly growing, wholly owned subsidiary of TBC Bank and it is the bank's main bancassurance partner. The company was acquired by the Group in October 2016 and it has grown significantly since then, becoming the second largest player on the P&C and life insurance market and the largest player in the retail segment, holding 20.4% and 37.8% market shares[1] without border motor third party liability (MTPL) insurance, respectively.

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



MARKET OVERVIEW

The insurance business in Georgia is regulated by an independent body, the Insurance State Supervision Service of Georgia, which closely monitors insurance companies and sets the minimum and solvency capital requirements. There are 17 insurance companies in the Georgian P&C and life insurance market with Aldagi and TBC insurance being the two largest players with market shares[2] of 29.7% and 20.4% respectively, as of 31 December 2018, followed by GPIH with 14.0%.

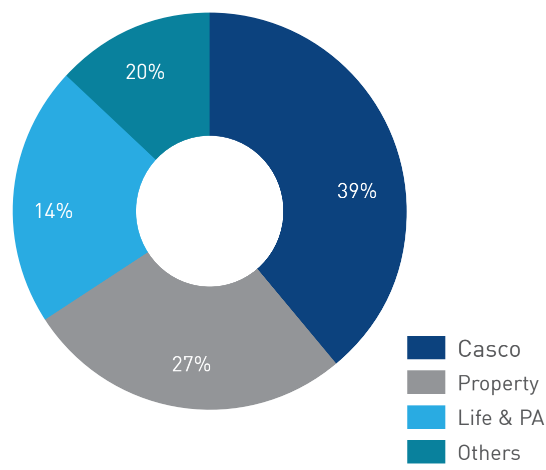
P&C and life insurance market has a high growth potential as it is under-penetrated with gross written premium to GDP standing at around 0.8%[2] as of the end of 2018, which is the second lowest among CEE countries. The density, which is measured as gross written premium per capita, is also low compared to peer countries standing at US$ 33.4[3]. During 2014-2017, the P&C and life insurance market has grown at a compound annual growth rate of around 11.0%, while the growth rate accelerated in 2018 and

1 Or 19.1% for the total and 31.2% for the retail market shares, with MTPL insurance. Starting from March 1, 2018 border MTPL has been introduced and GWP was divided evenly between 17 insurance companies, therefore it has decreased our market share. Source: Insurance State Supervision Service of Georgia
2 Or 28.0% and 19.1% respectively, with MTPL insurance. Starting from March 1, 2018 border MTPL has been introduced and GWP was divided evenly between 17 insurance companies. Source: Insurance State Supervision Service of Georgia
3 Source: Geostat and Insurance State Supervision Service of Georgia

reached 34.1%. This was supported by the introduction of a compulsory motor third party liability insurance (MTPL) for vehicles crossing Georgian borders. The largest products on the market are casualty and collision (CASCO) and property insurance which combined account for 66.0% of the total market.

Going forward, we expect P&C and life insurance market to grow by around 15.0% annually excluding compulsory MTPL insurance, which is expected to be introduced from the Q3 2019, increasing the market by around GEL 100-130 million in 2020 leading to an additional growth rate of around 35.0%.

Market composition by products



MAIN ACHIEVEMENTS AND STRATEGY

In 2018, TBC Insurance achieved strong growth results and improved its efficiency. The gross written premium grew by 91.8% and amounted to GEL 60.1 million, leading to a P&C and life insurance market share[1] of 20.4% up by 7.1 pp YoY. Over the same period, the net combined ratio[4] decreased by 17.9 pp to 79.3%, and loss ratio[5] decreased by 7.3 pp to 41.7%. As a result, the net profit for the year stood at GEL 7.3 million almost 8 times higher compared to 2017.

We achieved particularly impressive results in the retail segment, increasing our market share to 37.8%[1] up by 9.3 pp YoY and becoming the largest player in P&C and life insurance retail market. In terms of legal entities, TBC Insurance faced fierce competition in the SME & Corporate market, given that most of the largest client tend to stay with their insurers for loyalty-related reasons, or due to long-term binding contracts. Nevertheless, we managed to increase our P&C and life insurance market share of legal entities from 4.5% to 10.4% in 2018 and attracted some leading companies in Georgia. At the end of 2018, we also launched the SME Bancassurance web portal, which will help us to increase penetration in the underpenetrated SME market.

Going forward, TBC Insurance plans to further strengthen its positions on the market and become the number one insurance company in Georgia in the medium-term with the highest net promoter score (NPS) among the industry players in the country.

Strategic priorities	2018	Mid-term target
P&C and life insurance-Market share[1]	20.4%	Above 30%
P&C and life insurance retail market share[1]	37.8%	Above 40%
Offloading ratio[6] in voluntary retail sales	29.3%	Above 40%
NPS in claims service[7]	68.0%	Above 65%

TBC LEASING

TBC Leasing was founded in 2003 by TBC Bank, which currently holds 99.6% interest. This year, TBC leasing celebrated its 15th anniversary and during all these years the company has worked hard to gain its strong expertise and leading market position. As of 31 December 2018, TBC Leasing's market share[8] stood at 72.3% and its portfolio amounted to GEL 206.0 million with approximately 3,600 customers.

TBC Leasing serves both individuals and legal entities and provides comprehensive leasing solutions and advisory services including financial leasing, operating leasing,

4 Net insurance claims plus acquisition costs and administrative expenses divided net earned premium
5 Incurred losses divided by earned premium
6 Number of sales conducted in digital sales divided by total number of retail voluntary sales
7 Based on the internal survey
8 Based on internal estimates

sales and leasebacks tailored to customers' needs. Legal entities account for around 85.0% of our portfolio with services, construction, health care and production being the largest sectors. Our retail portfolio is comprised of new and used cars with respective shares of 33.7% and 67.3% in total. Our retail customers are served at our service centers, while we use the bank's channels to sell our products to MSME and corporate customers.

In 2018 the company achieved strong growth increasing its legal entities' portfolio by 33.5% YoY to GEL 175.0 million, while its retail portfolio grew by 118.8% YoY to GEL 31.0 million. Overall the leasing portfolio grew by 41.8%.

The company also actively cooperates with governmental projects, "Produce in Georgia" and "Agriculture Projects' Management Agency" (APMA), which aims to support the development of the manufacturing, service and agriculture industries by subsidizing companies' interest expenses. During the year, we have issued GEL 24.5 million leases within these programmes. We also strive to increase awareness of leasing solutions to startup companies for whom leasing is an affordable and particularity convenient option to obtain the necessary equipment. In addition, we strive to contribute to preserving the environment through financing energy efficient equipment and appliances.

In 2019 we plan to develop supplementary services to our clients, including a new portal which will allow our customers to control their payment schedule and financial reports on-line, as well as enhance our management information and customer relationship management systems. We also plan to cooperate with TBC insurance to cross-sell our products.

TBC PAY

TBC Pay is one of Georgia's leading payment companies. It was founded in 2008 by TBC Bank and it is its wholly owned subsidiary. TBC Pay operates a wide network of self-service terminals all over the country, which allow individuals to perform payments for various daily services instantly in the interactive mode on a 24-hour basis. Payments can be made in cash or using a debit or credit card. The company also operates an online platform (www.tbcpay.ge), which has the same functionality as self-service terminals.

To meet the demands of the rapidly expanding payments business, in 2018 we added 491 self-service terminals, up by 17.6% compared to the previous year and we currently have 3,281 terminals in operation. Over the same period, the number of transactions increased by 9.5% YoY to 43.3 million, while the volume of transactions went up 69.7% YoY to reach GEL 2,327.2 million.

This year, we achieved strong results in relation to our cash management business which we launched at the end of 2017. This service is designed for companies with a large volume of cash operations, allowing customers to deposit money directly to their bank account, which will appear instantly on their electronic statement. During 2018, we attracted several large retailers including Wissol Petroleum Georgia[1], Socar Georgia Petrolium[2], and Gepha[3]. Currently, we operate around 131 such special terminals, and the volume of such transactions amounted to GEL 461.8 million in December 2018 up by around 100% year-on-year. We plan to further expand this business during 2019.

We continue to enhance our online payment platform and in 2018 we have added several features to it, including payment template management, SMS reminder for bill payments and card-to-card instant transfer service, which allows customers to transfer money between Georgian bank cards instantly. In 2019 we will introduce an e-wallet, which will be integrated in our self-service terminals and online platform and give an opportunity to our clients to conduct electronic transactions without using their credit cards. TBC Pay mobile application will follow shortly after, introducing the easiest instant money transfer service.

During 2019, we will continue to grow our cash and online payments business in Georgia by continually improving the customer experience, adding new products and features to our online platform and self-service terminals and providing the most comfortable and effective service to customers in Georgia.

1 Wissol Petroleum Georgia is a leading petroleum company in Georgia
2 Socar Georgia Petroleum is a leading petroleum company in Georgia
3 Gepha is the leading pharmacy retailer in Georgia

TBC CAPITAL

TBC Capital is TBC Bank's wholly owned investment banking subsidiary and a licensed broker-dealer in Georgia. It is an integral part of TBC Bank's corporate and investment banking franchise. Its main lines of business include corporate advisory services, both debt and equity capital markets, brokerage services and market research. TBC Capital is also a shareholder of the Georgian Stock Exchange and plays an active role in the development of its infrastructure and the integration of domestic capital market into international markets.

Whilst the capital market related legislation and regulatory environment is still evolving in Georgia, the demand for capital markets products and corporate finance advisory services continues to grow among the country's large corporates. We believe that the anticipated pension reforms, which came into force on 1st January 2019, will lead to significant change, boosting the development of the securities' market and creating long-term GEL liquidity.

To capture this opportunity, TBC Capital has emerged as a player with strong suite of investment banking products and services helping clients to achieve their strategic corporate goals and growth objectives. In 2018, we widened the team, positioning TBC Capital to benefit from increased capital markets activity in Georgia and the region[4]. Our focus in 2019 remains to further broaden the investment banking transaction coverage in Georgia and across the region[4] as well as enhance brokerage and research business units.

More information about TBC Capital can be found in the corporate and investment banking section on pages 32 to 37.

INTERNATIONAL OPERATIONS

Most of TBC Bank's operations are conducted in Georgia (99.8% of total assets). However, we have two international subsidiaries, one in Azerbaijan and one in Israel.

TBC Invest
TBC Invest is a representative office of TBC Bank in Israel that acts as an intermediary with Israeli clients, offering information regarding products, fees and interest rates on TBC Bank's products.

TBC Kredit
TBC Kredit is a non-banking credit organisation that has operated in Azerbaijan since 1999. It mainly focuses on the SME, consumer and mortgage lending sectors. Since 2008 TBC Bank owned 75.0% of TBC Kredit. In August 2018, TBC Bank has purchased the remaining 25.0% from Enclude LTD, becoming 100% shareholder of TBC Kredit. In January 2019, TBC Bank signed a shareholder agreement with Nikoil Bank to develop its business in Azerbaijan by merging TBC Kredit with Nikoil Bank (More information is given on page 22).

TBC Kredit's total loan portfolio stood at GEL 31.6 million at 31 December 2018. SME lending accounted for 37.2% of the total, while consumer and mortgage loans accounted for a respective 45.3% and 17.5%.

OTHER LOCAL SUBSIDIARIES

The Group also includes the following subsidiaries:

United Financial Corporation is the largest card-processing centre in Georgia, serving eight banks, seven financial institutions and two loyalty companies. Its services fully comply with VISA International and MasterCard Worldwide regulations, as well as payment card industry data security standards.

Real Estate Management Fund and Mali manage property that TBC Bank has repossessed for future sale.

Banking Systems Service Company provides hardware and software maintenance of ATMs, POS terminals and other electronic banking systems.

BG provides asset management service to TBC Bank.

	Breakdown of total assets	Breakdown of net income
The Bank	97.1%	92.1%
International operations	0.2%	0.4%
Other local operations	2.7%	7.5%

4 Region in this context comprises Armenia, Azerbaijan and Georgia

Risk management is a critical pillar of the Group's strategy. It is essential to identify emerging risks and uncertainties that could adversely impact on the Group's performance, financial condition and prospects. This section analyses the principal risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by yet unknown risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 57 to 69.

The Board has undertaken a robust assessment of the principal risks facing the Group and long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. For more information, please see the Going Concern and Viability Statements on pages 118 to 119.

1. PRINCIPAL RISK

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

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

Risk description

Credit risk is the most material risk faced by the Group since it is engaged mainly in traditional lending activities. The Group's customers include legal entities as well as individual borrowers.

Due to high level of dollarization of the Georgia's economy, 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 due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries. Loses may be further aggravated by unfavorable macroeconomic conditions. These risks are described as a separate principal risks in more details.

Risk mitigation

A comprehensive credit risk assessment framework is in place with a clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated. Individual application underwriting and automated underwriting rules are performed by units within the risk function that is independent from origination and business development units.

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 promptly take early remedial actions when necessary.

The Group's credit portfolio is structurally highly diversified across customer types, product types and industry segments which minimizes credit risk at Group level. As of 31 December 2018 retail segment represented 45.3% of the total portfolio which was split between mortgage and non-mortgage 57.7% and 42.3%, respectively. In business banking, no single industry represented more than 7.5% of the total portfolio at the end of 2018.

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

The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2018, 71.6% of the Group's portfolio was secured by cash, real estate or gold. Sound collateral management framework ensures that collateral serves as an adequate mitigating factor for credit risk management purposes

2. PRINCIPAL RISK

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

The potential material GEL depreciation is one of the most significant risks that could negatively impact on the portfolio

quality due to the large presence of foreign currencies on the Group's balance sheet. Unhedged borrowers could suffer from an increased debt burden when their liabilities denominated in foreign currencies are amplified.

Risk description
A significant share of the Group's loans (and a large share of the total banking sector loans in Georgia) is denominated in currencies other than GEL, particularly in US$. As of 31 December 2018, the NBG reported that 57.1% of the total banking sector loans were denominated in foreign currencies. As of the same date, 60.1% of the Group's total gross loans and advances to customers (before provision for loan impairment) were denominated in foreign currencies.

The income of many customers is directly linked to the US$ via remittances, or exports in case of business borrowers. Nevertheless, customers may not be protected against significant fluctuations in the GEL exchange rate against the currency of the loan.

The US$/GEL rate remained volatile throughout the 2018, however YoY basis the US$/GEL appreciated only by 3.3%. The NBG operates effectively under its inflation-targeting framework. The GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in depreciation against the US$.

Risk mitigation
Particular attention is paid to currency-induced credit risk due to the high share of loans denominated in foreign currencies in the portfolio. The vulnerability to the 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, which was showed by the regulatory stress test as well. Details of stress test are described on pages 118 to 119. 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 are required to be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantely more conservative PTI and LTV thresholds for unhedged retail borrowers further limiting the exposure to currency induced credit risk.

3. PRINCIPAL RISK

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

A slowdown of economic growth in Georgia would have an adverse impact on the repayment capacity of the borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Group's portfolio quality and profitability and would also impede the 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, decrease in household disposable income, falling property values, worsening loan collateralisation, or falling debt service capabilities of companies as a result of decreasing sales.

Potential political and economic instability in the neighbouring and main trading partner countries could negatively impact Georgia's economic outlook through a worsening current account (e.g. decreased exports, tourism inflows, remittances and foreign direct investments).

Risk description
According to the Geostat's initial estimates, real GDP increased by 4.8% in 2018. This indicates a solid growth for Georgian economy and underlines the economy's resilience and strong growth potential, especially taking into account the contractionary fiscal stance throughout the year and unfavourable developments in the region. In addition to Georgia's fiscal discipline, it is important to note that during 2018:

- the inflation was low;
- the current account deficit has improved and performed below its long term trend;
- the real effective GEL exchange rate was below its long term trend and medium term average; and
- there was a reduction in the FDI inflows, however, primarily due to one-offs. Overall, FDI inflows remain main source of current account deficit.

Moreover, the NBG continued to build up its international reserves and there were no signs of overheating in Georgia's housing market. As for the system wide credit growth, while the penetration has increased, credit to GDP ratio was still close to its long term trend, especially measured at constant exchange rate, and loan dollarization has been decreasing, though at a much slower pace in 2018.

Overall, from a macro perspective there were no signs of building up of system wide risks in 2018. At the same time, Georgia remains vulnerable to external and to some extent internal shocks, which could have adverse impact on the

Georgian economy resulting in lower growth or, in some severe circumstances, a contraction of the economy. These negative developments could also have a negative impact on the GEL exchange rate.

Risk mitigation
To decrease its vulnerability to economic cycles, the Group identifies cyclical industries and proactively manages its underwriting approach and clients within its risk appetite framework.

The Group has in place a macroeconomic monitoring process that relies on close, recurrent observations of the economic developments in Georgia, as well as its neighbouring countries, to identify early warning signals indicating imminent economic risks. This system allows the Group to promptly assess significant economic and political occurrences and analyse their implications for the Group performance. The identified implications are duly translated into specific action plans with regards to reviewing the underwriting standards, risk appetite metrics or limits, including the limits for each of the most vulnerable industries.

Additionally, the stress-testing and scenario analysis applied during the credit review and portfolio monitoring processes enable the Group to have an advance evaluation of the impact of macroeconomic shocks on its business. The resilience towards a changing macroeconomic environment is incorporated into the Group's credit underwriting standards. As such, borrowers are expected to withstand certain adverse economic developments through prudent financials, debt-servicing capabilities and conservative collateral coverage.

4. PRINCIPAL RISK

The Group encounters the capital risk of not meeting the minimum regulatory requirements, which may compromise growth and strategic targets.

The Bank is regulated by the National Bank of Georgia (NBG). The regulations and various terms of its funding and other arrangements require compliance with certain capital adequacy and other ratios. At the same time, the local regulator has the right to impose additional regulations on a bank if it perceives excessive risks and uncertainties in that lender or in the market.

Risk description
In December 2017 the NBG introduced a new capital adequacy framework. The updated regulation divides the current capital requirement across Pillar 1 and Pillar 2 buffers that are introduced gradually over a four-year period. As of year-end 2018, the Bank's minimum capital requirement increased by 1.5% for Tier 1 and 3.7% for Total Capital compared to the end of 2017. The increase in minimum requirements is driven by introduction of systemic risk, concentration and GRAPE buffers.

The Bank's capitalisation as of December 2018 stood at 12.8% and 17.9% against the regulatory minimum requirement of 11.8% and 16.7% for Tier 1 and Total capital, respectively. The ratios are well above the respective regulatory minimums. As of December 2017 the Bank's capitalisation stood at 13.4% and 17.5% against the regulatory minimum requirement of 10.3% and 12.9% for Tier 1 and Total capital, respectively.

From January 2018, the NBG has fully phased out the Basel I and Basel II/III capital adequacy standards and has replaced them with the updated capital framework, which is more compliant with the Basel III guidelines.

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 minimum regulatory requirements.

Capital forecasts, as well as the results of the stress-testing and what-if scenarios, are actively monitored with the involvement of the Bank's Management Board and Risk Committee to ensure prudent management and timely actions when needed.

5. PRINCIPAL RISK

The Group is exposed to regulatory and enforcement action risk.

The Bank's activities are highly regulated and thus face regulatory risk. The local regulator, the NBG, can increase the 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, including higher capital requirements.

Risk description
The Bank is regulated by the NBG, who sets lending limits and other economic ratios (including, inter alia, lending, liquidity and investment ratios) in addition to mandatory capital adequacy ratios. During 2018, the NBG introduced several regulatory changes concerning the responsible lending standards. The details are outlined in the RECC report on page 133 to 135.

The NBG is also responsible for conducting investigations into specific transactions to ensure compliance with Georgian finance laws and regulations. In that regard, the Bank was subject to an inspection by the NBG in connection with certain transactions which took place in 2007 and 2008. The inspection alleged that these transactions between the Bank and certain entities were not in technical compliance with the Georgian law regulating conflicts of interest. In February 2019, the Company, the Bank and the NBG issued a joint statement confirming the settlement of this investigation and that the Bank fully complies with economic normative requirements and limits set by the NBG. Separately, it is noted that the Georgian Office of Public Prosecution has also launched an investigation into the same matter and there have not been any material developments to date. The respective regulatory disclosures in this regards can be found at www.tbcbankgroup.com under regulatory news section.

Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. The Bank is also regulated by respective tax code or 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.

As part of the Group's international strategy, the ongoing merger between Nikoil Bank and TBC Kredit is subject to regulatory approval and the Group's intention is to increase over the four year period its shareholding in the merged entity to over 50%. This will, in turn, increase the Group's exposure to the regulatory environment in Azerbaijan. In addition, TBC Bank is working on the green field project in Uzbekistan. This project is currently in the development phase and is subject to approvals, including from the local authorities, which further increases regulatory compliance requirements for the Group.

The Group's operations remain in full compliance with all relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 281 in the Group's Audited Financial Statements.

Risk mitigation

The Group has established systems and processes to ensure full regulatory compliance, which are ebedded in all levels of the Group's operations.

The dedicated compliance department reports directly to the Chief Executive Officer and bears the primary responsibility for regulatory compliance.

The Group's RECC 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. There was also an extensive dialogue with the regulator regarding the new regulation on responsible lending.

Together with the new regulation on responsible lending, the government introduced initiatives to ensure continuous broad access to financing. These include simplification of the tax code to incentivize income registration rate.

Although 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 practice.

As regarding the recent investigations by the NBG in February 2019, the Company, the Bank and the NBG issued a joint announcement, confirming that the Bank will: (i) pay approximately GEL 1 million; and (ii) implement a restructuring of the Bank's Supervisory Board whereby the founding shareholders will step down from the Supervisory Board. In addition, TBC Bank continues to cooperate with the NBG to further improve the quality of the Bank's corporate governance and the Company will arrange an external review of the Group's related party transactions, practices and procedures.

6. PRINCIPAL RISK

The Group is exposed to concentration risk.

Banks operating in developing markets are typically exposed to both single-name and sector concentration risks.

The Group has large individual exposures to single-name borrowers whose potential default would entail increased credit losses and high impairment charges.

The Group's portfolio is well diversified across sectors, resulting in only a moderate vulnerability to sector concentration risks. However, should exposure to common risk drivers increase, the risks are expected to amplify correspondingly.

Risk description
The Group's loan portfolio is diversified, with maximum exposure to the single largest industry (energy and utility) standing at 7.5% of the loan portfolio as of 31 December 2018. This figure is reasonable and it demonstrates an adequate credit portfolio diversification.

At the end of 2018 the exposure to the 20 largest borrowers stands at 14.2% of the loan portfolio, which is in line with the Group's target of alleviating concentration risk. .

Risk mitigation
The Group constantly checks 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 its neighbouring countries, will trigger the Group's review of the risk appetite criteria to mitigate emerging risk concentrations. Stringent monitoring tools are in place to ensure compliance with the established limits. 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 a more efficient handling and, ultimately, to limit resulting credit risk losses.

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

7. PRINCIPAL RISK

Liquidity risk is inherent in the Group's operations.

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

Risk description
Throughout 2018, the Group was in compliance with the risk appetite limits, as well as the minimum liquidity requirements set by the NBG, which introduced a liquidity coverage ratio in 2017. This is in addition to the Basel III guidelines, under which a conservative approach was applied to the weighting of mandatory reserves and to the deposit withdrawal rates, depending on the concentration of client groups. As of 31 December 2018, the net loan to deposits plus international financial institution funding ratio stood at 89.9%, the liquidity coverage ratio at 113.9%, and the net stable funding ratio at 130.2%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

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 respective liquidity risk. The Board believes there is adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse impact on the Group's business, financial condition, and results of operations and/or prospects. As part of its liquidity risk management framework, the Group has a liquidity contingency plan in place outlining the risk indicators for different stress scenarios and respective action plans. Liquidity risk position and compliance with internal limits is closely monitored by the Assets and Liabilities Management Committee (ALCO).

8. PRINCIPAL RISK

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

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

Risk description
The majority of the Group's total income derives from net interest income. Consequently, NIM's fluctuations affect the Group's results. In 2018, the NIM increased by 0.4 pp YoY to 6.9%, in line with TBC Bank's expectations which were included in the forecast that provides the basis for the Group's guidance.

The increase was driven by the advanced analytics across the Bank concerning proper customer segmentation and pricing as well as targeting the right product mix, however increased competition as well as downward trend of interest rates creates potential threat for the NIM.

The Group manages its direct exposure to the LIBOR and local refinancing rates through respective limits and appropriate pricing. As of 31 December 2018, GEL 4,259 million in assets (27%) and GEL 1,785 million in liabilities (13%) were floating, related to the LIBOR/FED/ECB (deposit facility) rates, whereas GEL 3,147 million of assets (20%) and GEL 2,286 million of liabilities (17%) were floating, related to the NBG's refinancing rate. However, the assets are still longer term than liabilities.

The recent regulation regarding the responsible lending will decrease the consumer portfolio growth rate in the short and medium term, thus negatively impact the Group's NIM with the estimated range of 30 -50 bp. The government's initiative to decrease the cap on interest rates from 100% to 50% will also have negative impact on the NIM. However, considering that such portfolio is not material for the Bank, the respective impact on NIM will be limited.

Risk mitigation

The current high margin levels, the increase in fee and commission income and continuous cost optimisation efforts safeguard against margin declines and profitability concerns for the Group. During 2018, the Group continued to actively work on the margin management with the help of a reputable external consultant. The margin management program, which included an adequate pricing framework and profitability analysis to further assist in the decision making process, will remain one of the Group's key focus areas in 2019.

To mitigate 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 the interest rates.

The Group expects that the margins will stabilise in the medium term and that the decreasing margins will be compensated by increased fee and commission income and decreased unit cost spent per transaction.The new NBG regulation, limiting consumer finance and shifting retail lending to mortgages, will positively impact the cost of credit risk, thus supporting to sustain the risk adjusted NIM.

9. PRINCIPAL RISK

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

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

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

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

10. PRINCIPAL RISK

External and internal fraud risks are part of the operational risk inherent in the Group's business. Considering the increased complexity and diversification of operations, together with the digitalisation of the baking 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 and, most frequently, this involved events related to banking cards and cash. Internal frauds arise from actions committed by the Group's employees and such events happen less frequently.

During the reporting period, the Group faced only a few instances of fraud events, none of which had a material impact upon the Group's profit and loss statement. Nonetheless, fraudsters are adopting new techniques and approaches to exploit various possibilities to illegally obtain

funds. Therefore, unless properly monitored and managed, the potential impact can become substantial.

Risk mitigation
The Group actively monitors, detects and prevents risks arising from fraud events and permanent monitoring processes are in place to timely detect unusual activities. The risk and control self-assessment exercise focuses on identifying residual risks in key processes, subject to 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 a timely identification and control of fraud-related activities.

11. PRINCIPAL RISK

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

The Group is expanding its international presence in Azerbaijan and Uzbekistan. The expansion exposes the Group to new macro-economic, political and regulatory environments, including exposure to risks arising from credit, market, operational and capital adequacy risks in local jurisdictions.

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

Risk description
The risk posed by the external environment in Uzbekistan and Azerbaijan may change the Group's risk profile as a result of international expansion. According to the latest IMF forecasts, Uzbekistan is a rapidly developing economy with above 5% real GDP growth projection in the medium term.

The Uzbekistani economy is well diversified with no major reliance on a particular industry. It has one of the lowest public debts as a percentage of GDP in the region and high international reserve implying the macroeconomic stability as well as room for future high growth. The new government of Uzbekistan plans to reform the economy and open it up to foreign investments.

While the operational environment in Uzbekistan can be assessed as attractive, there are important risks, which can materially affect the Group's performance in the country. These risks include, but are not limited to, the political instability, low pace of reforms, adverse developments in inflation and fluctuations in the exchange rate.

Azerbaijan is a small open economy with high reliance on oil exports. The economy of Azerbaijan started to recover in 2017 after the contraction in 2016 caused by the significant decline in oil prices in the period of 2014-2016 years. The IMF projects Azerbaijan's economic growth rate to improve to 3.6% in 2019 and to average at 2.7% over the next 5 years. Along with the stabilisation in oil prices and exchange rate, annual inflation has also decreased in 2018. Azerbaijan's economic recovery has also contributed to the strengthening of its financial sector and gradual recovery of the lending to the economy. Despite relatively more stable environment, Azerbaijan's growth is still significantly depends on oil prices and any adverse developments in oil prices could negatively affect the growth perspectives and exchange rate. Furthermore, potential political instability and unfavorable developments in the state regulations can also negatively affect the Groups business in Azerbaijan.

Risk mitigation
The Group' 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 leading to non-concentrated portfolio, leading to the lower credit risk.

The Group will maintain close relationship with the IFIs to ensure business plan funding flexibility across many different options. In particular, the IFIs will be the Group's partners in Uzbekistan.

The Group has been operating in Azerbaijan through a small microfinance organisation for a number of years, which provides experience and knowledge of local banking environment. In addition, in Azerbaijan the exposure is limited before the option is exercised. The Group will exercise the option only after it becomes comfortable with the development, including operating environment.

The management will focus on establishing strong risk management function to ensure that all risks are managed and mitigated properly. The Group will leverage on its strong risk management expertise to establish sound risk management practices in new jurisdictions.

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

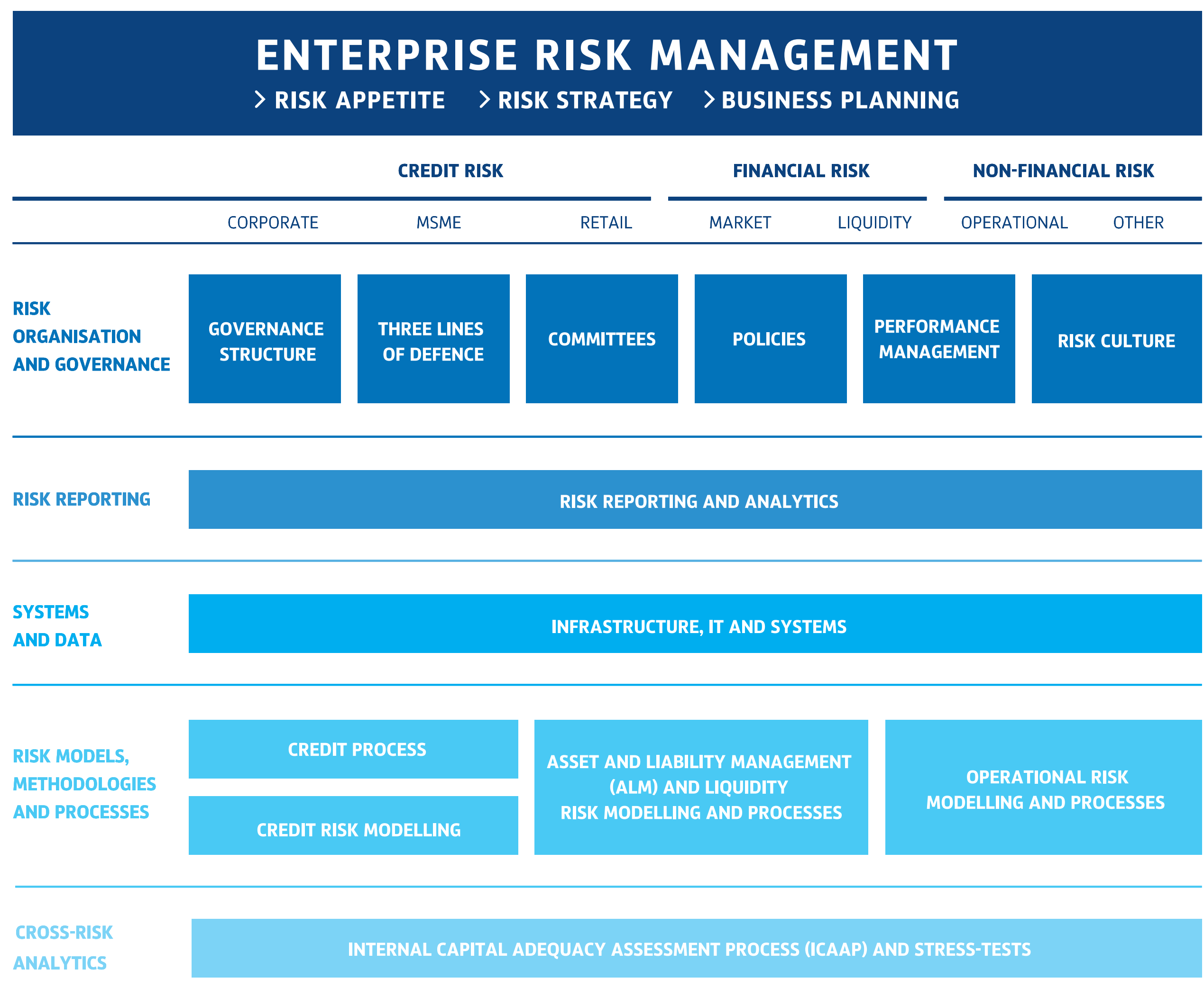
OVERVIEW

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

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

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

GROUP RISK MANAGEMENT FRAMEWORK



GOVERNANCE

The Group conducts its risk management activities within the framework of its unified risk management system. The involvement of all governance levels in risk management, clear segregation of authority and effective communication between the different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to the established risk appetite and sound risk management.

The Group's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. The Board and the Supervisory Board have joint overall responsibility to set the tone at the top of the Group and monitor compliance with the established objectives, while the Management Board governs and directs the Group's daily activities.

The risk governance structure consists of three board levels, including the Board, the Supervisory Board and the Management Board. All three boards have dedicated risk committees. The Board and the Supervisory Board each have a Risk, Ethics and Compliance Committee that supervises the risk profile and risk governance practice within the Group, as well as an Audit Committee that is responsible for implementing key accounting policies and facilitating internal and external auditor activities.

The Management Board's Risk Committee was established to guide the Group-wide risk management activities and monitor major risk trends to ensure that the risk profile complies with the established risk appetite. The Management Board's Operational Risk Committee makes decisions related to operational risk governance, while the Assets and Liabilities Management Committee (ALCO) is responsible for the implementation of asset-liability management policies.

The Board, the Supervisory Board and the Bank's senior management govern risk objectives through the Risk Appetite Statement, which establishes the desired risk profile and risk limits for different economic environments. The statement also sets monitoring and reporting responsibilities, as well as escalation paths for different trigger events, and limits breaches, which prompt risk teams to frame and implement established mitigation actions. To effectively incorporate the Group's risk appetite into day-to-day operations, Risk Appetite Statement metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities.

1 These terms are defined in the glossary on page 299

The process of setting and cascading the risk appetite is undertaken in parallel with the business planning process. The interactive development of business and risk plans aligns the plans by solving risk-return trade-offs in the process and increases the feasibility of achieving targets. The Board level oversight, coupled with the permanent involvement of senior management in the Group's risk management and the exercise of top-down risk allocation by the enterprise risk management function, ensures clarity regarding risk objectives, intense monitoring of the risk profile against the risk appetite, the prompt escalation of risk-related concerns and the establishment of remediation actions.

The daily management of individual risks is based on the three lines of defence principle. While business lines are the primary owners of risks, risk teams act as the second line of defence by sanctioning transactions, tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees established at operational levels are charged with making transaction-level decisions as part of a framework comprised of clear and sophisticated delegations of authority, based on the "four-eyes" principle. All new products and projects pass through risk teams to ensure that the risks are comprehensively analysed. These control arrangements guarantee that the Group makes informed decisions that are adequately priced and that any risks exceeding the Group's established targets are not taken. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams.

The Group's strong and independent risk-management structure enables the fulfilment of all required risk management functions within the second line of defence by highly skilled professionals, with a balanced mix of credentials in banking and real sectors in local and international markets.

In addition to the risk teams subordinated to the chief risk officer, the compliance department reports directly to the CEO and is specifically in charge of anti-money laundering and compliance risk management. As a third line of defence, the internal audit department is responsible for providing independent and objective assurance and recommendations to the Group to promote the further improvement of operations and risk management.

ENTERPRISE RISK MANAGEMENT

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

- Risk appetite development, cascading and monitoring are essential elements of the Group's strategy. A risk budget is allocated to individual business lines to ensure the achievement of aggregated metrics.
- Internal capital adequacy assessment is a continuous process within the Group to ensure adequate calculation of unexpected losses and prompt respective mitigation actions to assure solvency. Economic capital is assessed for all the material risks of the Group, such as credit, financial, operational and market risks. Additionally, individual economic capital calculations are supplemented by enterprise-wide stress-tests. Based on the selected stress scenarios, the Group calculates losses and projects capital adequacy ratios. This exercise helps the Group to define the capital buffers that are to be held to meet the regulatory requirements under predefined stress scenarios.
- Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. In that regard, the Group continuously advances its stress-testing capabilities and tools. Stress testing at both the transaction and portfolio levels forms part of the regular risk management activities.
- Consistency of risk management practices within the Group is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that the risks are identified, measured and governed in an optimal manner within the Group, and reported and understood on a consolidated basis. The Group-wide approach to risk management became even more crucial considering the Group's international strategy to ensure that the risks are managed properly across the Group.
- Generating an adequate return on risk plays a crucial role in the sustainability of the business model. Risk inputs for pricing are designed in a way to serve as a backdrop against excessive risk taking and guarantee that the Group takes adequately priced risks.

CREDIT RISK MANAGEMENT

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 its obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the most material risk faced by the Group since it is engaged mainly in traditional lending activities with a simple balance sheet. Thus, the Group dedicates significant resources to its management.

Due to the significant reliance on foreign currencies in Georgia's economy, currency-induced credit risk is a significant 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 due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries.

The major objectives of credit risk management are to put in place a sound credit approval process for informed risk-taking and procedures for effective risk identification, monitoring and measurement.

The Group adopts segment- and product-specific approaches for prudent and efficient credit risk management. Therefore, the corporate, MSME and retail portfolios are managed separately to address the specifics of individual segments. Corporate and MSME (except micro) borrowers have larger exposures and are managed on an individual basis, whereas micro and retail borrowers are managed on a portfolio basis. Major credit risk functions can be summarised as follows.

Credit approval

The Group strives to ensure a sound credit-granting process by establishing well-defined lending criteria and building up an efficient process for the assessment of a borrower's risk profile. A comprehensive credit risk assessment framework is in place with a clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, and is further differentiated across various product types to reflect the differing natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis, whereas the decision-making process for smaller retail and micro loans is largely automated.

After a thorough assessment of borrowers' requirements, credit analysts in the case of corporate and loan officers in the case of SME borrowers prepare a presentation containing certain key information in relation to the potential borrower and submit it for review to the business underwriting risk management unit. An underwriting risk manager ensures that the project analysis provided by the credit analyst/loan officer is complete, all risks and mitigating factors are identified and adequately addressed, and the loan is properly structured. Business underwriting risk managers specialise in a particular sector to be aware of current industry trends and developments.

A multi-tiered system of loan approval committees is in place with different approval levels to consider the borrower's overall indebtedness and risk profile. These committees are responsible for reviewing credit applications and approving exposures, with different committees based on the size and risk of the loan. At the highest level, the Chief Executive Officer, corporate business director and chief risk officer are involved. In addition, exposures to the 20 largest borrowers or for amounts exceeding 5% of the Bank's regulatory capital would require review and approval by the RECC.

Loan officers submit the credit applications for retail and micro exposures to the respective underwriting risk management units. Depending on the amount of the loan, a loan approval committee will review the loan request based on specified limits regarding the risk level of the customer.

The underwriting of unsecured retail loans, point-of-sale loans and credit cards is largely automated, with decisions based on internal scorecard models and ratings provided by the credit bureau. Different scorecard models are developed based on the type of product and the borrowers' segment, taking into consideration various internal and external data. The performance of scorecard models is closely monitored to ensure that decisions are in line with predefined risk limits.

The new regulations on responsible lending added new requirements to the documented income verification procedures that the Bank is performing in addition to its internal processes for underwriting decisions.

Currency-induced credit risk
The Group faces currency-induced credit risk, given that a large part of its exposure is denominated in foreign currency. However, limits have been established within the risk appetite framework to ensure that the Group continues its efforts toward minimising the share of foreign currencies in the portfolio.

Various management tools and techniques are applied to mitigate the inherent currency-induced credit risk in the loan book, encompassing all phases of credit risk management. In January 2019, the Government 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 are required to be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers further limiting the exposure to currency induced credit risk. The Group applies conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies to ensure that they can withstand a certain amount of forex depreciation without credit quality deterioration. In addition to the measures in place throughout the underwriting process, the Group actively monitors and assesses the quality of loans denominated in foreign currencies through stress-testing exercises and holds sufficient capital buffers against unexpected losses.

In the event of a material currency depreciation, the Group has tools in place to accelerate its monitoring efforts, identify customers with potential weaknesses and introduce prompt mitigation.

Credit concentration risk
The Group is exposed to concentration risk, defined as the potential deterioration in portfolio quality due to large exposures or individual industries. It has established a set of tools to efficiently manage concentration risk and, in particular, concentrations of single names and sectors in the portfolio.

The Group is subject to concentration limits on single names and the largest 20 borrowers, and is focused on optimising the structure and quality of the latter portfolio. In addition, the Group imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on comprehensive analysis of industry cycles and outlook.

Credit concentrations are monitored monthly. Trends in the risk positions are analysed in detail and corrective actions are recommended should new sources of risk or positive developments emerge.

Along with managing concentration levels in the portfolio, the Group estimates unexpected losses and respective economic capital for concentrations of both single name borrowers and sectors using the Herfindahl-Hirschman Index, thus ensuring that sufficient capital is held against concentration risk.

Collateral management policy
Collateral represents the most significant credit risk mitigation tool for the Group, making effective collateral management one of the key risk management components. Collateral on loans extended by the Group may include, but is not limited to, real estate, cash deposits, vehicles, equipment, inventory, precious metals, securities and third-party guarantees. The collateral accepted against a loan depends on the type of credit product and the borrower's credit risk. The Group has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral.

A centralised unit for collateral management governs the Group's view and strategy in relation to collateral management, and ensures that collateral serves as an adequate mitigating factor for credit risk management purposes. The collateral management framework consists of a sound independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis), revaluations and collateral portfolio analysis.

Throughout the underwriting process, the Collateral Management and Appraisal Department (CMAD) appraises the provided collateral in accordance with International Valuation Standards (IVS), acting NBG regulations and internal policy/procedures. In specific instances, such as lending to related parties and material transactions, valuations are implemented by external appraisers.

The collateral management function is fully automated through web and mobile applications for field and desk activities. The internal appraisal function as a part of the CMAD is fully independent from the loan-granting process to ensure that adequate appraisals are obtained and proper procedures are followed. When appraising collateral, the Group applies haircuts to the asset's market value based on the property type and its location.

Collateral of significant value is revaluated annually through an individual approach. While statistical methods are used to monitor the value of collateral of non-significant value. The collateral management function uses market researches implemented under the project's real estate market laboratory (REM lab).

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Credit monitoring
The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner and to monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments.

The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposures, overall portfolio performance and external trends that may impact on the portfolio's risk profile. Early warning signals serve as an important advance alert system for the detection of credit deteriorations, leading to mitigating actions.

The RECC reviews reports relating to the credit quality of the loan portfolio quarterly. By comparing current data with historical figures and analysing forecasts, the management believes that it can identify risks and respond to them by amending its policies in a timely manner.

Restructuring and collections
The Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and promptly take early remedial actions when necessary. The collection and recovery processes are initiated when the borrower does not meet the agreed payments or the borrower's financial standing is weakened, potentially jeopardising the repayment of the credit.

Dedicated restructuring and recovery units manage weakened borrowers across all business segments, with collection and recovery strategies tailored for business segments and individual exposure categories. The restructuring unit's primary goal is to rehabilitate the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid, and the main stream of recovery is no longer the borrower's cash flow.

Loan recovery plans may include all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees. The Group's goal in the recovery process is to negotiate a loan recovery strategy with the borrower and secure cash recoveries to the extent possible, or to negotiate repayment through the sale or repossession of collateral.

Collection functions for retail and micro loans support customers who are experiencing difficulties in fulfilling their obligations. Such customers may miss payments or notify the Group about their difficulty with loan repayments. A centralised team monitors retail borrowers in delinquency which, coupled with branches' efforts, aims to maximise collection. Special software from FICO is used for early collection management purposes. Collection strategies are defined based on the size and type of exposure. Specific strategies are tailored to different sub-groups of customers, reflecting their respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.

Retail and micro loans are generally transferred to the recovery unit at 60-90 days past due. Collateralised loans are transferred to the internal recovery unit, whereas the Group collaborates with external collection agencies for unsecured loans. To recover collateralised loans, the recovery plan is outlined considering the individual borrower's specifics and may involve loan repayments under revised schedules or the sale of collateral. Collection agencies generally negotiate with the borrowers so that the full repayment of the loan or loans can be rescheduled and repaid accordingly.

Once the exposure is transferred to the recovery unit, if the Group is unable to negotiate acceptable terms with the borrower, the Group may initiate collateral repossession, which is usually a standard process with limited legal complications, and may include court, arbitration or notary procedures. Restructuring and recovery units are supported by qualified incumbent lawyers for efficient accomplishment of litigation and repossession processes.

Provision assessment

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

The project was undertaken with the support of Deloitte and the representatives of the Group's risk, finance and IT departments were responsible for the methodology and IT tool implementation.

The new models are more complex and make it possible to incorporate expectations of macro developments based on predefined scenarios. The expected credit loss (ECL) measurement is based on four components used by the Group: (i) probability of default ("PD"); (ii) exposure at default ("EAD"); (iii) loss given default ("LGD"); and (iv) discount rate.

The Group uses a three-stage model for the ECL measurement and classifies its borrowers across three stages:

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

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

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

FY2018 was the first year after the transition to IFRS 9. The Group actively reviewed and monitored the results produced from IFRS 9 models to ensure that respective results adequately capture expected losses.

FINANCIAL RISK MANAGEMENT

Liquidity risk management

Liquidity risk is the risk that the Group either may not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or may only be able to access those resources at a high cost.

Both funding and market liquidity risks can emerge from a number of factors that are beyond the Group's control. Due to financial market instability, factors such as a downgrade in credit ratings or other negative developments may affect the price or ability to access the funding necessary to make payments in respect of the Group's future indebtedness.

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

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

i. ensure the availability of funds to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price;

ii. recognise any structural mismatch existing within the Group's statement of financial position and set monitoring ratios to manage funding in line with the Group's well-balanced growth; and

iii. monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising the Group's risk profile.

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

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

Funding liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows without affecting either its daily operations or its financial condition under both normal conditions and during a crisis. To manage funding liquidity risk, the Group has an internally developed model using a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR), both under Basel III liquidity guidelines.

Additionally, the Group applies stress-tests and "what-if" scenario analyses and monitors the NBG's minimum liquidity ratio. In 2017, the NBG introduced its own LCR for liquidity risk management purposes. In addition to the Basel III guidelines, the ratio applies conservative approaches to the weighting of mandatory reserves and deposit withdrawal rates depending on the client group's concentration. From September 2017, the Bank also monitors compliance with the NBG's LCR limits. In addition to the total LCR limit, the NBG has also defined limits per currency for the GEL and foreign currencies.

The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage short-term liquidity risks. The NSFR is calculated by dividing the available stable funding by the required stable funding. It is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for the bank to rely on more stable sources of funding on a continuing basis.

Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, the Group follows the Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Group's high-quality liquid assets can be sold without causing a significant movement in price and with minimum loss of value.

In addition, the Group has a liquidity contingency plan, which forms part of the overall prudential liquidity policy. The plan is designed to ensure that the Group can meet its funding and liquidity requirements and maintain its core business operations in any deteriorating liquidity conditions that could arise outside the ordinary course of its business.

Funding and maturity analysis

The Group's principal sources of liquidity include customer deposits and accounts, borrowings from local and international banks and financial institutions, subordinated loans from international financial institution investors, local interbank short-duration term deposits and loans, proceeds from sales of investment securities, principal repayments on loans, interest income and fee and commission income.

The Board believes that a strong and diversified funding structure is one of the Group's differentiators. The Group relies on relatively stable deposits from Georgia as the main source of funding. To maintain and further enhance its liability structure, the Group sets targets for retail deposits in its strategy and sets loan-to-deposit ratio limits.

The Group also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio. The Board believes that the Group has sufficient liquidity to meet its current on- and off-balance-sheet obligations. For further information on the management of liquidity risk, please refer to Note 36 to the Audited Consolidated Financial Statements.

Market risk

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

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

Foreign exchange risk

The NBG requires the Bank to monitor both balance-sheet and total aggregate balance (including off-balance-sheet) open currency positions and to maintain the latter within 20% of the Bank's regulatory capital. For the year ended 31 December 2018, the Bank maintained an aggregate balance open currency position of 7.6%.

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

Management Board and periodically to the Supervisory Board and its Risk, Ethics and Compliance Committee. On the Group-wide level, foreign-exchange risk is monitored and reported monthly. A value-at-risk analysis following the Basel guidelines is used to assess the Bank's minimum capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) framework monthly.

Interest rate risk management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of the Group's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities. The deposits and most of the loans offered by the Group are at fixed interest rates, while a portion of the Group's borrowing is based on a floating interest rate.

The Group's floating rate borrowings are, to a certain extent, hedged because the NBG pays a floating interest rate on the minimum reserves that TBC Bank holds with it. Furthermore, many of TBC Bank's loans to and deposits from customers contain a clause allowing it to adjust the interest rate on the loan/deposit in case of adverse interest rate movements, thereby limiting exposure to interest rate risk. The management also believes that TBC Bank's interest rate margins provide a reasonable buffer to mitigate the effect of a possible adverse interest rate movement.

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate 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, the Board and the RECC.

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

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

Counterparty risk

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

To manage counterparty risk, the Bank defines limits on an individual basis for each counterparty, while on a portfolio basis it limits the expected loss from both treasury and trade finance exposures. As of 31 December 2018, TBC Bank's interbank exposure was concentrated with banks that external agencies, such as Fitch, Moody's and Standard and Poor's, have assigned high A-grade credit ratings.

NON-FINANCIAL RISK MANAGEMENT

Operational risk management

One of the main risks that the Group faces is operational risk, which is the risk of loss resulting from inadequate or failed processes and systems, human error, fraud or external events. It includes legal risk but excludes strategic and reputational risk. However, reputational risk management is also given high importance and priority and is an integral part of the organisation's overall risk culture.

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

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

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

To oversee and mitigate operational risk, the Group has established an operational risk management framework, which is an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of the various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the framework.

The Management Board ensures a strong internal control culture within the Group, where control activities are an integral part of operations. The Board sets the operational risk appetite and the Operational Risks Committee oversees compliance with the limits. The Operational Risks Committee discusses the Group's operational risk profile and risk minimisation recommendations on a regular basis.

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

- running risk and control self-assessments, which are aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions;
- forming an internal risk event database for further quantitative and qualitative analysis;
- performing internal control to detect systematic errors in banking operations, internal fraud events and monitoring key risk indicators;
- conducting scenario and root-cause analyses;
- providing business advisory services regarding non-standard cases as well as assessments of new products and procedures;
- monitoring IT incident occurrence and overseeing activities targeted at solving identified problems; and
- obtaining insurance policies to transfer the risk of losses from operational risk events.

The operational risk management department has reinforced its internal control, risk assessment teams and methodologies to further fine-tune the existing control environment. The same applies to the set of actions directed to homogenise operational risk management processes throughout the Group's member companies. The operational risk management department reports to the chief risk officer.

Various policies, processes and procedures are in place to control and mitigate operational risks, including:

- enacting an outsourcing risk management policy, which enables the Group to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor;
- implementing procedures to analyse systemic flaws and take corrective measures to prevent the reoccurrence of significant losses;
- involving the operational risk management department in the approval process for new products and services to minimise risks relating thereto; and
- developing a special operational risk awareness programme for the Group's employees and providing regular training to further strengthen the Group's internal risk culture.

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

Compliance

The compliance department is a key body executing the Bank's compliance function, has a formal status and is independent from operating structural units and business lines. The compliance function's role is executed by a compliance officer, who acts as a compliance adviser and coordinator, addressing compliance issues in structural units or business lines. The chief compliance officer reports quarterly to the Risk, Ethics and Compliance Committee, with a disciplinary reporting line to the CEO.

The department is responsible for the Group's compliance and reputational risk management. It implements and monitors the fulfilment of requirements of the following policies:

- the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy;
- the Related-Party Transaction Policy;
- the Share Dealing Policy;
- the Code of Ethics; and
- the Whistleblowing Policy.

The compliance department manages regulatory risk by conducting root cause analyses of customer complaints, the operational risk event database, internal audit findings

and litigation cases. Based on the outcomes of these analyses, it then initiates changes to internal instructions or gives recommendations to the Bank's structural units on relevant process amendments. The compliance officer has the role of educator and adviser on compliance issues. The compliance department delivers training courses via distance-learning and face-to face sessions to existing staff members and newcomers, and promotes a compliance culture within the Group.

During 2018, the Bank was subject to an inspection by its regulator, the NBG in connection with certain transactions which took place in 2007 and 2008. The inspection alleged that these transactions between Bank and certain entities were not in technical compliance with the relevant Georgian law relating to the regulation of conflicts of interest. In February 2019, the Company, the Bank and the NBG issued a joint announcement, confirming that the Bank will: (i) pay approximately GEL 1 million; and (ii) implement a restructuring of the Bank's Supervisory Board whereby the founding shareholders will step down from the Supervisory Board. In addition, TBC Bank continues to cooperate with the NBG to further improve the quality of the Bank's corporate governance and the Company will arrange an external review of the Group's related party transactions, practices and procedures. The NBG also confirmed in the joint statement that the Bank fully complies with economic normative requirements and limits set by the NBG.

Separately, it is noted that the Georgian Office of Public Prosecution has also launched an investigation into the same matter and there have not been any material developments to date.

Information Security Steering Committee

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

The Group invests in effective information security risk management, incident management and awareness programmes, which are enhanced with automated tools that ensure acceptable levels of information security risk within the organisation. Whenever preventive controls are not applicable, comprehensive business continuity and incident response plans ensure the Group's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption.

Conduct risk

Conduct risk is defined as the risk to the delivery of fair outcomes for customers and other stakeholders. The Group has adopted the Code of Conduct and the Code of Ethics, both of which set high ethical standards that each employee is responsible to uphold.

The Group's business holds a unique place of trust in the lives of more than 2.4 million customers throughout Georgia. Therefore, preserving market confidence through the protection of our customers' interests is of the utmost importance for the financial stability of the Group and the attainment of its strategic objectives.

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

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

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

1. developing and maintaining policies and procedures to ensure that the respective departments and individual employees comply with the provisions set out by regulatory provisions, best practice and the Code of Conduct, the Code of Ethic and the Group's internal handbook;
2. maintaining a liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/or its employees;

3. ensuring that the product information provided to clients by front-line employees is accurate and complete, and is conveyed (both in written and oral form) in a simple and understandable way regardless of the level of sophistication of a given client;

4. maintaining records of client conversations and emails that contain sensitive and sales-related information, including information pertaining to the acquisition of new clients and making complex product offers to existing and prospective clients;

5. delivering timely on-going training for new employees regarding proper conduct and ensuring that all employees stay up to date on evolving compliance standards within the Group through periodic training;

6. developing an open culture that encourages employees to speak up without fear of punishment. Specifically, this means setting up processes for the prevention and detection of conflicts of interest, creating ethical incentives and bonus formulas, and aligning incentives and disciplinary practices to the Group's risk appetite; and

7. employing qualified staff and sufficient human and technological resources to investigate, analyse, implement and monitor sales and after-sales activities.

The above approach ensures that the management of conduct risk is not limited to risk management units, including the compliance department, but is fully embraced by front-line departments and that the proper conduct is fully integrated into required job skills.

VIABILITY STATEMENT

The assessment of principal risks underpins the Viability Statement in the Directors' Report for 2018 (see pages 118 to 119). The assessment involved consideration of the Group's current financial position over three years of coverage ending 1 January 2022, which is relevant to the strategic considerations of the Group.

We are dedicated to running our business in a responsible and sustainable manner and creating value for all our stakeholders.

OUR CUSTOMERS

We are committed to continuously improving our customers' experience by offering tailored products and services in an accessible way coupled with superior customer experience, as well as support the development of the business sector to foster job creation in the country.

2018 HIGHLIGHTS

During 2018, we continued to innovate and develop new digital solutions to further improve our value proposition to our retail and business customers.

- In May 2018 we launched a new, innovative product, Space, aimed at young and digitally savvy customers. Space is a fully digital bank developed in partnership with leading industry players including Amazon Cloud, Pulsar AI, Mambu, SalesForce and Corezoid. The application has very modern and intuitive design and performs all banking transactions in real time (More information can be found on page 44).
- We also started an innovative online platform (www.businesstool.ge) which aims to help businesses to increase their efficiency by automatising their processes with software solutions created by Georgian IT companies. The platform is an online marketplace connecting businesses with IT service providers - it assists the former in finding the right digital solution on the local market and it helps the latter to introduce their products to the business community, ultimately increasing their sales. In addition, we ran a software competition, in partnership with EFSE DF to encourage the creation of IT solutions, which would bring maximum value for businesses. The top three winners were awarded with monetary prizes from EFSE DF to support them in the development of their products.
- We also attracted several special purpose facilities from different international financial institutions to support young entrepreneurs, women-led MSMEs, businesses operating in rural areas, innovative projects, energy efficient and renewable energy products, foreign trade support, as well as mortgage loans for first-time home buyers. The total amount disbursed under these projects amounted to GEL 128 million in 2018. More information about each facility can be found on our website under the press release section at www.tbcbankgroup.com.

DIGITAL ENGAGEMENT AND FINANCIAL INCLUSION

Our goal is to allow our customers to interact with us in the most convenient way. For this purpose, we operate an omni-channel distribution platform with a strong focus on digital channels, which enables our customers to conduct most of their daily transactions easily and remotely. Our award-winning mobile and Internet banking applications remain the most popular communication channels accounting for 37.2% of all transactions. The other widely used channel is self-service terminals as Georgia is still a largely cash-based society. At the end of 2018, 19.3% of all transactions were conducted through these terminals.

In order to increase young people's engagement in banking, we offer special cards to school and university students with distinctive benefits tailored to their needs and interests. The cards are free of any banking charges, including annual service fee and ATM withdrawal fee from TBC Bank ATMs. The cards feature unique designs which can be customised based on owners' wishes and interests. For card owners, we organise various campaigns which include special promotions and discounts at popular retailers. Furthermore, we regularly organise masterclasses for students, which are delivered by leading professionals.

CUSTOMER SATISFACTION

Our customer satisfaction is of utmost importance to us. We regularly request feedback from our clients and use this information to analyse their needs and fine-tune our value proposition accordingly. We also pay special attention to our customers' concerns and have a dedicated department dealing with clients' complains. We react promptly to each case and work closely with a customer to understand his/her problem.

We regularly measure customer satisfaction levels based on various surveys conducted by independent third party companies and maintain the highest scores in the Georgian banking sector. We also hold the leading position among the whole retail industry in the country.

CUSTOMER PRIVACY AND DATA SECURITY

Safeguarding customers' personal information is one of our top priorities and we continuously work on upgrading our control systems in order to ensure high-level customer privacy and data security. We use advanced information security technologies to identify and prevent any fraudulent activities. In order to minimise cyber security risks and detect cyber threats more effectively we constantly enhance our defense system with artificial intelligence measures and techniques.

In 2018, the National Bank of Georgia conducted a thorough audit of our data security systems and no significant issues were identified. Periodically, we also hire external audit companies to examine our data security and verify its compliance with existing local regulation and international best practices. The last audit, conducted in 2017 by a Ukrainian leading information systems securities company, confirmed that our systems ensure reliable protection against cyber threats.

In order to increase awareness and help our clients to protect their data security, we send periodic warnings to them through Internet and mobile banking applications regarding widespread cyber frauds and tips on how they should act in such cases.

We also conduct regular mandatory trainings on cyber security and data privacy for all our employees to ensure that they are well aware of potential threats and remain alert.

In 2018, we have enhanced our Privacy Policy in line with the requirements of the new EU General Data Protection Regulation (GDPR). The full policy can be found on our IR website at www.tbcbankgroup.com.

SUPPORTING BUSINESSES DEVELOPMENT

We are committed to supporting Georgia's business and entrepreneurs by providing access to finance as well as extensive non-financial services under our business support programme.

As of 31 December 2018, our MSME portfolio stood at GEL 2,497 million. Out of this amount, GEL 859 million has been used to finance rural areas and thus helped in creating new job opportunities in different sectors, including hospitality and leisure, agriculture, food industry and construction.

Since March 2017, we run Startuperi, a start-up oriented project offering full-scale support to companies in their early stage of development. The programme aims to foster entrepreneurship by providing easily accessible funding, media & PR support, free educational programmes and conferences, as well as partnerships with large companies in Georgia. Startuperi proved to be very successful and since its launch we have attracted 24,000 participants and have funded 490 startups totaling GEL102.5 million. The media reach of this programme was more than 36 million views at the end of 2018.

Within our business support programme, launched in 2013 in partnership with the Asian Development Bank (ADB), we continue to hold various educational events for our customers, including training courses, individual consultations, regional agro forums, networking events and masterclasses. All events are offered free of charge. During 2018, up to 7,500 MSMEs participated in this programme.

Since 2016 we also hold the annual Business Award ceremony which has become one of the most prominent business event in Georgia. The initiative aims at supporting the development of both new and established businesses and promote entrepreneurship in the country. The slogan is #sharesuccess as participants have an opportunity to share their success stories among the whole business community. Two new categories were added in the 2018 edition: the "Woman Entrepreneur of the Year" and the "Social Impact Award". In addition, we have added special prizes for the winners who can choose one award from three categories:

- digital strategy and new web page development;
- brand strategy and image campaign;
- business soft/Tool or SAAS.

Annual Business Award ceremony has become the major business event of the year in the country and it counts more than 1,500 community members in total. Traditional media as well as social network channels widely covered the event which attracted 16 million reach in PR and Social Media and top-of-mind awareness of this project reached 76% according to the survey conducted by the independent research agency, ACT in the end of 2018.

PRIORITIES FOR 2019

- We will continue to roll out innovative products and services to customers based on their evolving preferences, as well as maintain our focus on superior customer experience. We will also continue supporting businesses by expanding our business support programme with new digital tools and solutions. Furthermore, we are committed to increase our presence in underpenetrated regions and sub-segments to contribute to further financial inclusion.

THE ANNUAL LITERARY AWARD SABA
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OUR COLLEAGUES

Our colleagues are integral part our success and our most valuable asset. We are committed to creating a collaborative and diverse working environment where people feel valued and are motivated to realise their full potential and deliver high performance.

2018 HIGHLIGHTS

TBC Bank is one of Georgia's top employers and we work closely with the world's leading HR consulting companies in order to fine-tune our human resources system in line with the market's best practice.

In this regard, in 2018 we successfully delivered on a number of initiatives:

- we launched a job classification system which classifies head office staff positions according to the responsibilities and duties associated with the job. This scheme creates parity and consistency in job titles, sets defined salary ranges and promotes a fair and transparent working environment;
- we also implemented a self-service platform, embedded in our internal network, which allows employees to access information and perform routine tasks independently, without help from the HR team. In its first implementation stage, the platform allows employees to perform simple operations online, such as filling applications for annual leave or registering for insurance. Over time, more complex transactions will be added. The main benefits of such self-service tools include increased efficiency, simplified processes, time saving and low costs;
- in May 2018, we introduced the Human Resource Management System (HRMS), a new software which was developed in partnership with a leading software company in Central and Eastern Europe. Our new HRMS is the most up-to-date platform: it is fully automated and it features advanced reporting and data analysis capabilities.

EQUALITY AND DIVERSITY

We believe that workforce diversity and inclusion is key to creating a sustainable and successful business. Our work environment is free from any kind of discrimination and each and every employee is valued, respected and treated equally regardless of gender, age, marital status, race, ethnicity, religious and political beliefs or disability.

We recognize the benefits of gender diversity and actively support women in the workforce. Over 65% of our employees are women whereas, the share of women holding senior roles is 36%. We remain committed to improve the gender balance across managerial positions, We also appointed two new female non-executive board directors (detailed information is given in directors' governance statement on page 112).

We support colleague with disabilities and ensure that they are treated fairly and have the same access to learning, development and job opportunities. We give fair consideration to disabled candidates and are unbiased when selecting and appointing people. No applicant is discriminated because of his/her disability. We also strive to improve our workplace to make it more flexible for disabled people.

GENDER DIVERSITY STATISTICS

Board of directors

	2018	2017	2016
Male	7	9	9
Female	2	0	0

Top management

	2018	2017	2016
Male	7	7	7
Female	1	1	1

Middle management

	2018	2017	2016
Male	200	200	222
Female	120	105	119

All employees

	2018	2017	2016
Male	2,425	2,339	2,195
Female	4,827	4,745	4,097

We have a good mix of people with extensive working experience, as well as young and bright individuals who have just graduated from top universities in Georgia and abroad. Since 2012, we run an internship programme for the best students from Georgia's leading universities, at the end of which we offer permanent jobs to the best trainees. This programme has proven to be very successful and helped us identify the brightest and most talented students who are part of our team today. We believe that age diversity creates a more dynamic and high-performing team that leads to better results.

AGE DIVERSITY STATISTICS

	2018
<20	0.3%
20-29	56%
30-39	32%
40-49	9%
>=50	3%

GENDER PAY GAP

We regularly review our pay levels and make sure that men and women are paid equally for doing the same type of job. In 2018, for the first time, we have published details of the average pay gap between male and female colleagues in the bank.

As shown in the 1st table below, the average gender pay and bonus gaps are in favour of men. This is mainly due to higher number of women being employed in junior roles, including the customer service positions (as shown in table 3), which is related to our business model. However, the gap is positive for middle management positions, whereas we employ relatively lower proportion of women at higher pay quartiles based on their roles (please refer to table 2).

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

Gender pay and bonus gap statistics[1]

Gender pay gap is based on the data from April 1, 2018 to April 30, 2018.

Gender bonus gap is based on the data from April 6, 2017 to April 5, 2018.

Table 1

Bank Full	%
mean gender pay gap in hourly pay	48.9%
median gender pay gap in hourly pay	43.0%
mean bonus gender pay gap	53.7%
median bonus gender pay gap	52.4%

Table 2

Middle Management	%
mean gender pay gap in hourly pay	-21.4%
median gender pay gap in hourly pay	-13.4%
mean bonus gender pay gap	-33.9%
median bonus gender pay gap	-104.2%

1 The data on gender pay gap is presented only for the bank, which accounts for the 89% of the total Group's employees.
Negative gap indicates a percentage pay gap in favor of women, while positive gap indicates a percentage pay gap in favor of men

Table 3

Front Office Employees	%
mean gender pay gap in hourly pay	50.8%
median gender pay gap in hourly pay	54.4%
mean bonus gender pay gap	64.5%
median bonus gender pay gap	65.5%

Table 4

Back Office Employees	%
mean gender pay gap in hourly pay	29.6%
median gender pay gap in hourly pay	-7.7%
mean bonus gender pay gap	20.2%
median bonus gender pay gap	-11.3%

EMPLOYEE MOTIVATION AND ENGAGEMENT

High levels of employee motivation and engagement is one of our core priorities and we are constantly seeking new ways to create the best working environment.

We support various social activities, including internal clubs, championships and retreats. TBC clubs unite employees based on their interests and hobbies and bring together photographers, sport and art lovers, employees with three or more children and many other. We also regularly organise different internal championships and employee gatherings, including board game competitions, intellectual game "What? Where? When?" and various sports events such as football, basketball, bowling and others. Furthermore, we frequently take part in different external sport activities. For five years our employees have been taking part to the Wings for Life World Run, a running competition which raises funds for the research to cure spinal cord injuries.

For our middle managers, we organize annual overseas retreats to boost their team spirit and improve their job satisfaction. In 2016, the group supported Georgia's national rugby team in Scotland, 2017 it traveled to Wales and in November 2018, the middle managers were in Florence to support the national rugby team in a test match against Italy. Such initiatives support our employees' involvement in sport events and is in line with our strategy of becoming the rugby ambassadors in Georgia.

We care about health and wellbeing of our colleagues and offer free medical check-ups and consultations. In 2009, we established the TBC Fund, a charity fund which covers the medical expenses of our employees and their close relatives in case of severe diseases. Most of our employees regularly donate up to 2% of their salaries and the fund has already helped more than 1,170 people.

In addition, we offer a wide range of non-monetary awards including free tickets for exhibitions, cinema, opera, ballet and rugby games, as well as special discounts in various hotels, restaurants, gyms, book fairs and popular cultural events. For the employees' young children we provide back-to-school gift packages which comprise branded bags and stationary from our brand shop. The online brand shop in subsidised by TBC Bank and includes various accessories, clothes and gifts. We collaborate with Georgian designers and regularly add new collections that are designed exclusively for TBC Bank.

We recognise the benefits of a regular communication with our colleagues and use different online channels to keep our employees up-to-date with the Group's progress and recent developments. Employees are also encouraged to share their views and concerns through internal forums.

In order to accurately measure our employee satisfaction and engagement levels, we annually run a feedback survey in partnership with leading international universities and research firms. The results of the survey are analysed carefully and taken on board for the management's future actions. Based on the latest survey, conducted in December 2018, the engagement index and net promotor score stood at 87%and 66% respectively compared to 91% and 55% in 2017. The consistently high scores confirms that our colleagues believe that the Group is moving into the right direction and feel part of this success.

LEARNING AND DEVELOPMENT

We strive to attract and retain top talent and therefore we continuously invest in our colleagues' learning and professional development.

In 2011 we established TBC Academy, an in-house educational platform which provides training and workshops in different fields and allows our employees to learn from TBC Bank's top and middle management. Classes comprise technical subjects such as financial institutions, capital markets, ethics and financial fraud management, as well as soft skill including leadership, change management and others. Due to the increasing demand, in 2018 the number of courses conducted per year increased from four to seven. In 2018 more than 150 employees attended the training offered.

We also provide specialised training on a regular basis for front office staff to ensure that they are constantly up-to-date with new procedures and regulations. In order to allow more flexibility to our employees, since 2013 we operate a distance learning system, which give our colleagues an opportunity to study at a suitable time for them.

In addition to the in-house training opportunities, we provide our employees with financial support to attend various external courses and gain international certifications, such as CFA, FRM, ACCA and others. To further encourage them, in 2012 we established TBC Scholarship Fund, which provides co-financing to our top employees to study at the world's leading universities. In 2018, 10 managers received this scholarship.

Another initiative in this regard is organising masterclasses for our employees all over the country where leading Georgian professionals are invited to share their experience and knowledge. These masterclasses have proved to be very successful and have recorded high attendance rate, for a total of c. 3,500 people since its launch in 2017.

PERFORMANCE ASSESSMENT AND REWARD

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

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

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

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

We offer a competitive remuneration package, which includes a monthly salary, a performance-driven bonus and an attractive benefits' package. This is comprised of pension contributions, medical insurance, corporate mobile numbers, paid annual and sick leaves as well as fully-paid six months of maternity and paternity leave. Other benefits include monetary gifts in case of marriage and childbirth and compensation in case of serious illness or death. Furthermore, since 2013 we run a special club for large families. This social programme provides a special one-time gift of GEL 10,000 to all TBC Bank employees upon the birth of their fourth and fifth child and GEL 50,000 upon the birth of their sixth child or more. At the end of 2018, the club counts up to 500 employees and have granted around GEL 780,000 since its establishment.

We operate a deferred share bonus scheme for our middle managers whereby 15%-20% of the total annual bonus is paid in the form TBC PLC shares which are subject to three year continued employment condition and holding period: 10% and 10% are awarded on the first and second anniversaries respectively and the remaining 80% on the third anniversary. This scheme encourages a long-term commitment to the company and helps to align the middle managers' interest with those of the shareholders. In 2019, 167,361 shares were awarded as bonus shares to middle managers. (Detailed information regarding to directors' remuneration system can be found in the remuneration report on pages 136 to 155.)

ETHICAL STANDARDS AND RESPONSIBLE CONDUCT

We aspire to run a business that promotes high ethical standards, values and respects human rights, and encourages our employees to act with integrity and responsibility towards each other as well as towards our customers, business partners, other stakeholders and the community at large.

For this purpose, we have implemented a set of internal policies and procedures and we closely monitor their execution:

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

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

The Code of Ethics and Code of Conduct outline ethical principles and standards of professional conduct expected from all employees of the Group and set appropriate

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

The compliance with the Group's Code of Ethics and Code of Conduct is closely monitored by the HR Department and Compliance Department on regular basis. The Internal Audit Department also conducts periodic audits in order to identify any breach or misconduct in relation to compliance with these policies. No material breaches of the Group's Code of Ethics and Code of Conduct were identified during 2018.

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

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

The Compliance Department regularly conducts employee training sessions in order to raise awareness and highlight the importance of anti-corruption and anti-bribery issues. Periodic audits are also conducted by the Internal Audit Department to identify any violations or inappropriate behavior. No such material instances were identified during 2018.

PRIORITIES FOR 2019

- We will continue investing in our colleagues' development in order to create the best talent within our company. We are also committed to creating the best working environment for our employees to provide them with most rewarding careers in all aspects including financial benefits, learning and professional development opportunity, social interaction and safety.

OUR COMMUNITY

As the largest banking group in Georgia, we feel a responsibility towards our community and strive to give back by supporting those areas that are key for our country and its future: the young generation, art and culture.

2018 HIGHLIGHTS

During 2018, we implemented a number of remarkable projects:

- TBC Bank supported Saba, Georgia's main literary award, to celebrate its sixteenth award ceremony at 70th International Frankfurt Book Fair, which is the world's largest book fair. Georgia was the fair's guest of honour which provided the opportunity to introduce the Georgian literature to the prominent audience. In addition, within the framework of the fair, the renowned Struwwelpeter-Museum hosted an exhibition dedicated to the Georgian folk tale "Tsikara". The display consists of three-dimensional objects and patterns decorated with Georgian traditional visual art ornaments. It is open to the public from October 2018 through January 2019;
- To mark the 100th anniversary of Georgia's independence, TBC Bank supported the publication of the first book about Georgian history and culture by Oxford University . The book is based on the Wardrop collection which contains rare, ancient Georgian manuscripts, unique books and documents, including handwritten scripts of the famous "Knight in Panther's Skin" dating to the 17th century. The collection, stored at Bodleian Library in Oxford, was created by former British diplomat Sir Oliver Wardrop and his sister, Marjory, during many years. The book was presented at Sir Wardrop's former house, in Seven Oaks, in Great Britain, and is now available on Amazon;
- In October 2018 TBC Bank supported the return of the archives of the Zubalashvili brothers to Georgia. Petre, Jacob, and Stephan Zubalashvili were well-known industrialists, merchants and philanthropists in the 18th century. Their unique archives, consisting of historical documents about history, civilization, and archeology as well as artifacts, were preserved for over 114 years by their descendents who gifted them to Georgia in 2018. They were transferred to the National Museum of Georgia where an exhibition was held in November 2018.

YOUNG GENERATION

We are committed to supporting talented young people in their professional development and continue to roll out new projects and initiatives in this regard.

Since 2016 TBC Bank is the main partner of the Young Researchers and Innovators Competition Leonardo da Vinci, an annual event which aims to popularise STEM (acronym for science, technology, engineering and math) subjects among young people. The winning team of the 2018 edition received a one-year scholarship from TBC Status. Furthermore, in 2018 TBC became a partner of the Millennium Innovations Award which is a nationwide challenge that aims to promote innovations in STEM fields among youth throughout Georgia. TBC Bank will provide financial support to send the winning team at the Space Center University at the NASA Space Center in Houston, USA, in May 2019.

In June 2018, TBC Bank and Tbilisi State University (TSU) signed a memorandum of cooperation which envisages the development of joint educational projects and ad-hoc training, employment programmes for students, as well as creation of a special online brand shop for the university. In addition, TBC Bank will share its know-how in marketing and branding with the university and will also develop banking products tailored specially for the students' needs.

We are also actively supporting young talents through our first Georgian online charity platform www.statusdonates.ge which strives to promote success on behalf of TBC Status clients and develop a culture of social responsibility in society. Launched at the beginning of 2017 the platform has since financed 25 projects for a total of GEL 125,000 and it has improved the life of over 70 people.

CULTURE

TBC Bank has been a fervent supporter of Georgian culture since its establishment and it has implemented various projects to promote Georgian heritage.

In 2003 TBC Bank established Saba, the leading literary award in Georgia. To date, Saba has awarded over 150 prizes in different categories for a total amount of over GEL 700,000. This year, the Saba award ceremony was a particularly distinguished event as it was held in Germany within the framework of the Frankfurt International Book Fair. Since 2017, Saba also runs www.saba.com.ge, the largest online platform for Georgian electronic and audio books. The website allows access up to 300 authors and publishers and it has attracted around 170,000 readers, both in Georgia and abroad.

Another remarkable project is Artarea, the country's first online channel dedicated specifically to art and culture. Artarea offers its viewers various cultural programmes, online lectures, exhibitions, concerts and entertainment activities. Its popularity is steadily growing and it counts on over 30,000 daily viewers and over 110,000 daily users on social media.

To popularise the Georgian language and to integrate the Georgian alphabet into the digital world, in 2016 we launched #WriteinGeorgian. As part of this project in 2017 we partnered with Microsoft and created www.kartulad.ge, the first Georgian-language platform which aims to integrate the Georgian language into Microsoft's programmes and software such as Skype, Office, and others. The platform encourages the Georgian population to engage with the website and translate sentences taken out of Georgian literature. This year, Tbilisi State University and its center of Lexicography translated around 50,000 sentences. Over 100,000 sentences have been translated thus far making it possible for Microsoft's platform to begin "studying" the Georgian language. During the year, several other remarkable initiatives were also completed including:

- the digitalisation of the largest Georgian-English dictionary;
- the organisation of the first fonts competition in Georgia in order to digitalize new Georgian fonts and promote fonts engineering in the country;
- the transfer of a database with over three million sentences/phrases to Microsoft from Saba's electronic books.

We also continue to actively host various exhibitions and cultural events at our art galleries in Georgia's three main cities. During 2018, we hosted around 140 events. Among them, the most remarkable was "Battle or Habituation?," an exhibit dedicated to Georgia's 100th anniversary of independence which was held with the support of the Korneli Kekelidze Georgian National Center of Manuscripts.

RUGBY

TBC Bank is general sponsor of the Georgian Rugby Union since 2015. Rugby is a sport close to the heart of Georgians, it is the country's national game and it promotes the country's image on the international stage. We are proud to contribute to the development of rugby in Georgia and are committed to supporting our national rugby team in their quest to be included in the Six Nations' club.

PRIORITIES FOR 2019

- Going forward, we will continue setting leading example for other business to give back to community by our active involvement in CSR activities. Our priorities remain providing new opportunities of education and development to talented young people, supporting art and taking care of Georgia's cultural heritage. We firmly believe that these are key areas where we can have a positive impact and we can focus our efforts to build a prosperous country.

ENVIRONMENT

We are strongly committed to preserve the environment by conducting our business in a responsible and sustainable way and we take active measures to reduce our environmental footprint from our direct and indirect activities.

LENDING RESPONSIBLY

As the largest banking group in Georgia, our major environmental impact stems from the projects we choose to finance. Therefore, we have adopted the Environmental and Social Risk Management Policy which is compliant with the Georgian environmental legislation and follows international best practice guidelines. The policy also ensures that we lend responsibly and do not finance projects that have an adverse environmental or social impact. The sector-specific environmental and social risk assessment is integrated into the credit risk management processes and is applied to all commercial lending activities. The full policy can be viewed at www.tbcbank.ge/web/en/web/guest/esms. The compliance with procedures is closely monitored by the Environmental and Social Risk Management Team and the Internal Audit Department conducts periodic audits in order to identify any breaches. No such material breaches were identified during 2018.

We also operate a dedicated channel where employees, partners, customers or any other interested person can raise environmental and social concerns in relation to our activities. More information can be found on the following link: www.tbcbank.ge/web/en/web/guest/e-s.

EFFICIENT CONSUMPTION OF NATURAL RESOURCES AND RESPONSIBLE WASTE MANAGEMENT

We strive to use natural resources efficiently by reducing the consumption of fuel, gas, electricity, water and printing papers. To achieve this we take the following measures:

- we use energy-efficient LED lightings in our premises;
- we operate an energy-efficient heating and cooling systems in our offices;
- we reduce consumption of paper through high level of digitalisation of processes, both in our back and front office. In 2018, we set the target to futher reduce the consumption of printing paper by 36% in 2019 compared to the current level of 11.2 printing paper per person in reams;
- we also set the target for reducing consumption of water per employee by 19% in 2019 from the current level of 13.49 (m3/pp);
- We renewed 73% of our auto park at the bank with hybrid (59%) and electric (14%) cars;
- we prioritise the use of green and energy-efficient products in our everyday activities by incorporating environmental assessment into procurement process;
- we use green construction standards within the bank.

In terms of waste management, TBC Bank operates a waste management programme since 2016, which ensures that we closely monitor and effectively manage our non-hazardous and hazardous waste. Non-hazards waste mainly arise from printing paper, which we shred and exchange with a recycling company in return for books that we donate to orphanages, vulnerable families and libraries in remote villages in Georgian rural and mountain regions. For hazardous office waste, such as printer cartridges, we collaborate with a company specialised in supplying new cartridges and refilling the used ones. Starting from 2019, we plan to implement waste separation system that will enable us to reduce the amount of waste we send to the landfills.

PRIORITIES FOR 2019

- We plan to enhance our policies and procedures in order to further reduce our environmental impact and to implement various initiatives to raise our colleagues' awareness to environmental issue and increase their engagement.

GREENHOUSE GAS EMISSIONS

As a premium-listed company trading on the LSE, TBC Bank is required to calculate and report upon the greenhouse gas (GHG) emissions stemming from its direct operations. For this purpose, TBC Bank has established a comprehensive internal environmental system to manage its GHG emissions within the Group and is committed to reducing its GHG emissions by closely monitoring consumption of fuel, gas and electricity. TBC Bank also commissioned an independent Health, Safety, Environment (HSE) consulting company, Gergili LLC to verify the measurements of its GHG emissions.

	Total CO2 Emissions (tonnes)			KPIs
Data for the FY	**2018**	**2017**	**2016**	**2019**
Scope 1* Fuel Combustion (heating, vehicles, generators)	2,584	2,409	1,805	-8%
Scope 2 (Electricity consumption)	1,391	1,375	1,147	-5%
Scope 3 (International flights)	644	366	268	-
Total emissions (tCO_2)	**4,619**	**4,150**	**3,219**	**-6%**
Total emission per full time employee (CO_2t/pp)	**0.65**	**0.60**	**0.52**	**-6%**

*Scope 1:

a)1,483 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2018 compared to 1,538 CO2e in 2017 and 1,209 CO2e in 2016

b)1,013 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2018 compared to 763 CO2e in 2017 and 533 CO2e in 2016

c) 88 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2018 compared to 108 CO2e in 2017 and 63 CO2e in 2016

In 2018, total GHG emissions increased by 11% YoY mainly due to increased number of international flights related to our international expansion strategy, as well as rise in emissions from vehicles as a result of increase in total number of cars related to the overall growth of business.

CALCULATION METHODOLOGY

For GHG inventory following step has been set: organization boundaries, operational boundaries, gathering data and calculation of carbon dioxide (CO2) equivalent. This report describes all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and additionally the emissions under Scope 3 that are applicable to the business. In preparing the emissions data, the emissions factors from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and National IPCC emission factors for electricity (tCO2*/MWhe) was used. The required data was collected and report developed for the boundaries of TBC PLC's main activities as follows:

Scope 1 (combustion of fuel and operation of facilities) includes emissions from combustion of natural gas, diesel and/or petrol in equipments at owned and controlled sites. Combustion of petrol, diesel fuel, natural gas and etc in owned transportation devices;

Scope 2 (purchased electricity for own use (lighting, office appliances, cooling & etc.) includes emissions from: Used electricity at owned and controlled sites; to calculate the emissions, it has been used the conversion factor for National IPCC emission factors for electricity (tCO2*/MWhe);

Scope 3 includes emissions from air business travels (a short haul, a medium haul, a long haul and an international haul); it should be noted that information on the travel class was considered and an "economy class" conversion factor has been used for the emissions calculation from the following link: www.atmosfair.de/en/offset/flight

NON-FINANCIAL INFORMATION STATEMENT

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

NON-FINANCIAL INFORMATION	PAGES
The entity's business model	Business model, pages 14 to 25
Environmental matters	Environment, pages 84 to 86
Employees	Our colleagues, pages 74 to 79
Social matters	Our community, pages 80 to 83
Human rights	Ethical standards and responsible conduct, pages 78 to 79
Anti-corruption and anti-bribery	Ethical standards and responsible conduct, pages 78 to 79
Non-financial key performance indicators relevant to the entity's business	Key performance indicators, page 16
Description of principal risks and mitigations	Principal risks and uncertainties, pages 50 to 56

BORJOMI GORGE FORESTS

TBC Bank was the first Georgian private company to announce the decision to restore and reforest the Borjomi Gorge where 752 hectares of woods were destroyed during violent wildfires in 2017 and the Russian-Georgian armed conflict in 2008.

In 2018, TBC Bank partnered with the Forestry Agency and fully restored 10 hectares of damaged land by planting 17,500 Caucasian pine trees. Employees were actively involved in this initiative and TBC Bank organized weekend field trips to Borjomi to help out the Forestry Agency staff with the tree planting process.

OVERVIEW

TBC Bank financial results are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. The financial results are adjusted for certain one-off items. The Group classifies and separately discloses certain incomes and expenses, which are non-recurring by nature and are caused by extraordinary events, as one-off items in order to provide consistent view and enable better analysis of the financial performance of the Group. Adjusted performance is alternative performance measure and the reconciliation of the underlying profit and loss items with the reported profit and loss items and the underlying ratios are given under Annex 1 section on page 106.

TAX STRATEGY

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

Our objectives are built around the following key principles
- transparency;
- responsibility; and
- effective interaction with tax authorities.

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

FINANCIAL HIGHLIGHTS

FY 2018 P&L highlights

- Underlying[1] net profit amounted to GEL 454.9 million (FY 2017: GEL 369.2 million)
- *Reported net profit amounted to GEL 437.4 million (FY 2017: GEL 359.9 million)*
- Underlying[1] return on equity (ROE) without one-offs of 22.8% (FY 2017: 21.4%)
- *Reported return on equity (ROE) amounted to of 22.0% (FY 2017: 20.9%)*
- Underlying[1] return on assets (ROA) was 3.3% (FY 2017: 3.2%)
- *Reported return on assets (ROA) was 3.2% (FY 2017: 3.1%)*
- Net interest margin (NIM) stood at 6.9% (FY 2017: 6.5%)
- *Risk adjusted net interest margin (NIM) stood at 5.4% (FY 2017: 5.1%)*
- Total operating income for the period was up by 26.3% YoY to GEL 1,087.5 million
- Cost to income stood at 37.8% (FY 2017: 41.7%)
- Cost of risk on loans stood at 1.6% (FY 2017: 1.2%)
- *FX adjusted cost of risk stood at 1.5% (FY 2017: 1.4%)*

Balance sheet highlights as of 31 December 2018

- Total assets amounted to GEL 15,498.0 million as of 31 December 2018, up by 19.5% YoY
- Gross loans and advances to customers stood at GEL 10,372.6 million as of 31 December 2018, up by 21.3% YoY
- Net loans to deposits + IFI funding stood at 89.9% and Net Stable Funding Ratio (NSFR) stood at 130.2%
- NPLs were 3.1%, down by 0.2pp YoY
- NPLs coverage ratios stood at 102.7%, or 216.4% with collateral, on 31 December 2018 compared, to 104.7% or 209.4% with collateral, as of 31 December 2017
- Total customer deposits amounted to GEL 9,352.1 million as of 31 December 2018, up by 19.6% YoY
- As of 31 December 2018, the Bank's Basel III Tier 1 and Total Capital Adequacy Ratios per NBG methodology stood at 12.8% and 17.9% respectively, while minimum requirements amounted to 11.8% and 16.7%

MARKET SHARES[2]

- Market share by total assets reached 38.2% as of 31 December 2018, up by 1.8pp YoY
- Market share by total loans was 38.8% as of 31 December 2018, up by 0.6pp YoY
- In terms of individual loans, TBC Bank had a market share of 40.0% as of 31 December 2018, down by 0.2pp YoY. The market share for legal entity loans was 37.4%, up by 1.4pp YoY
- Market share of total deposits reached 41.2% as of 31 December 2018, up by 1.4pp YoY
- Market share of individual deposits stood at to 41.2%, down by 0.1pp YoY. In terms of legal entity deposits, TBC Bank holds a market share of 41.2%, up by 3.3pp YoY

1 Excluding one-off items. Detailed information and effects are given in Annex 1 on page 106
2 Market share figures are based on data from the National Bank of Georgia (NBG)
The NBG includes interbank loans for calculating market share in loans

CONSOLIDATED FINANCIAL RESULTS OVERVIEW FY 2018

Income statement highlights

In thousands of GEL	2018	2017	*Change*
Net interest income	778,022	604,015	28.8%
Net fee and commission income	157,530	125,961	25.1%
Other operating non-interest income	151,916	131,009	16.0%
Credit loss allowance[3]	(166,239)	(106,907)	55.5%
Operating income after credit loss allowance	**921,229**	**754,078**	**22.2%**
Operating expenses	(411,029)	(359,400)	14.4%
Profit before tax	**510,200**	**394,678**	**29.3%**
Income tax expense	(72,765)	(34,750)	NMF
Profit for the period	**437,435**	**359,928**	**21.5%**
Underlying profit for the period	**454,861**	**369,214**	**23.2%**

NMF – no meaningful figures

Balance sheet and capital highlights

	Dec-18		Dec-17		*Change*
In thousands of GEL	GEL	US$	GEL	US$	
Total assets	15,497,993	5,790,179	12,965,910	5,001,894	19.5%
Gross loans	10,372,582	3,875,283	8,553,217	3,299,598	21.3%
Customer deposits	9,352,142	3,494,038	7,816,817	3,015,515	19.6%
Total equity	2,205,968	824,168	1,890,454	729,285	16.7%
Regulatory tier I capital (Basel III)	1,678,716	627,182	1,437,218	554,440	16.8%
Regulatory total capital (Basel III)	2,351,269	878,454	1,885,287	727,292	24.7%
Regulatory risk weighted assets (Basel III)	13,154,871	4,914,769	10,753,189	4,148,287	22.3%

The 2018 figures are converted into US$ using exchange rate of 2.6766 as of 31 December 2018, while 2017 figures are converted using exchange rate of 2.5922 as of 31 December 2017

Key ratios[4]

	2018	2017	*Change*
Underlying ROE	22.8%	21.4%	1.4 pp
Reported ROE	*22.0%*	*20.9%*	*1.1 pp*
Underlying ROA	3.3%	3.2%	0.1 pp
Reported ROA	*3.2%*	*3.1%*	*0.1 pp*
NIM	6.9%	6.5%	0.4 pp
Cost to income	37.8%	41.7%	-3.9 pp
Cost of risk[3]	1.6%	1.2%	0.4 pp
FX adjusted cost of risk	*1.5%*	*1.4%*	*0.1 pp*
NPL to gross loans	3.1%	3.3%	-0.2 pp
Regulatory tier 1 CAR (Basel III)	12.8%	13.4%	-0.6 pp
Regulatory total CAR (Basel III)	17.9%	17.5%	0.4 pp
Leverage (times)	7.0x	6.9x	0.1x

3 The figures for 2017 are calculated per IAS 39 and therefore are not comparable with 2018 figures, which are based on IFRS 9
4 Please refer to page 105 for key ratio definitions

INCOME STATEMENT DISCUSSION

Net interest income

In thousands of GEL	2018	2017	*Change*
Loans and advances to customers	1,123,972	919,796	22.2%
Investment securities measured at fair value through other comprehensive income	57,057	-	NMF
Investment securities available for sale	-	43,735	NMF
Due from other banks	23,744	14,807	60.4%
Bonds carried at amortised cost	40,625	32,328	25.7%
Investment in leases	38,837	23,273	66.9%
Interest income	**1,284,235**	**1,033,939**	**24.2%**
Customer accounts	266,741	233,884	14.0%
Due to credit institutions	196,498	157,122	25.1%
Subordinated debt	41,571	36,975	12.4%
Debt securities in issue	1,403	1,943	-27.8%
Interest expense	**506,213**	**429,924**	**17.7%**
Net interest income	**778,022**	**604,015**	**28.8%**
Net interest margin	**6.9%**	**6.5%**	**0.4 pp**

NMF – no meaningful figures

In FY 2018, net interest income grew by GEL 174.0 million, or 28.8%, YoY to GEL 778.0 million, resulting from a GEL 250.3 million, or 24.2%, higher interest income and a GEL 76.3 million or 17.7% higher interest expense.

Interest income grew by GEL 250.3 million, or 24.2%, YoY to GEL 1,284.2 million. This was mainly driven by an increase in interest income from loans and advances to customers of GEL 204.2 million, or 22.2%, which is primarily related to a rise in the gross loan portfolio by GEL 1,819.4 million, or 21.3%, YoY. This effect was further magnified by a 0.2 pp increase in loan yields to 12.3%, which was driven by a rise in rates on GEL denominated loans of 0.9 pp. This in turn was partially offset by the decrease in yields on FC denominated loans by 0.6 pp. Another contributor to the increase in interest income was the interest income from investment securities (comprising of investment securities measured at fair value through other comprehensive income, investment securities available for sale and bonds carried at amortised cost), which was up by GEL 21.6 million, or 28.4%. This resulted from an increase in respective portfolio by GEL 552.0 million, or by 49.8%. Yield on investment securities remained stable on YoY basis. Yields on interest earning assets expanded by 0.3 pp to 11.4%, compared to FY 2017.

The YoY growth in interest expense by GEL 76.3 million, or 17.7% to a GEL 506.2 million in FY 2018 was mainly due to 25.1% increase in interest expense on amounts due to credit institutions by GEL 39.4 million and a rise in interest expense on customer accounts by GEL 32.9 million, or 14.0%. The higher interest expense on amounts due to credit institutions was mainly due to an increase in the respective portfolio by GEL 410.8 million, or 15.7%, and a 0.7pp higher effective rate, which stood at 7.2%, mainly related to the rise in Libor rate. The higher interest expense on customer accounts was attributable to a GEL 1,535.3 million, or 19.6%, growth in the respective portfolio, partially offset by a 0.2 pp decline in the cost of deposit, down to 3.2%, which resulted from a 0.3 pp and a 0.4 pp decrease in cost of deposits of LC and FC denominated deposits, respectively. As a result, the cost of funding decreased by 0.1 pp on a YoY basis and stood at 4.4%.

Consequently, NIM was 6.9% in FY 2018, compared to 6.5% in FY 2017.

Fee and commission income

In thousands of GEL	2018	2017	*Change*
Card operations	106,067	82,525	28.5%
Settlement transactions	70,720	59,739	18.4%
Guarantees issued	19,815	15,121	31.0%
Issuance of letters of credit	6,463	5,735	12.7%
Cash transactions	17,147	17,424	-1.6%
Foreign currency exchange transactions	2,183	1,339	63.0%
Other	13,306	12,061	10.3%
Fee and commission income	**235,701**	**193,944**	**21.5%**
Card operations	55,893	46,360	20.6%
Settlement transactions	8,669	7,421	16.8%
Guarantees issued	1,460	1,801	-18.9%
Letters of credit	1,403	1,072	30.9%
Cash transactions	5,180	4,393	17.9%
Foreign currency exchange transactions	3	94	-96.8%
Other	5,563	6,842	-18.7%
Fee and commission expense	**78,171**	**67,983**	**15.0%**
Card operations	50,174	36,165	38.7%
Settlement transactions	62,051	52,318	18.6%
Guarantees	18,355	13,320	37.8%
Letters of credit	5,060	4,663	8.5%
Cash transactions	11,967	13,031	-8.2%
Foreign currency exchange transactions	2,180	1,245	75.1%
Other	7,743	5,219	48.4%
Net fee and commission income	**157,530**	**125,961**	**25.1%**

In FY 2018, net fee and commission income totalled GEL 157.5 million, up by GEL 31.6 million, or 25.1%, compared to FY 2017. This mainly resulted from an increase in net fee and commission income from card operations of GEL 14.0 million, or 38.7% and an increase in net fee and commission income from settlement transactions of GEL 9.7 million, or 18.6%.

The rise in net fee and commission income from card operations is related to the increased number of active cards and POS terminals by 17.8% and 15.0% respectively. The increase in net fee and commission income from settlement transactions was mainly related to our subsidiary, TBC Pay, driven by a higher number of transactions, the growth in net fee and commission income from our affluent retail sub-segment, TBC Status and the increased number and volume of money transfer transactions.

Other operating non-interest income and gross insurance profit

In thousands of GEL	2018	2017	*Change*
Net gains from trading in foreign currencies	**106,874**	**91,473**	**16.8%**
Share of profit of associates	**1,154**	**909**	**27.0%**
Gains less losses/(losses less gains) from derivative financial instruments	**173**	**(36)**	**NMF**
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	**2**	**-**	**NMF**
Gains less losses from disposal of investment securities available for sale	**-**	**93**	**NMF**
Revenues from sale of cash-in terminals	1,715	1,093	56.9%
Revenues from operational leasing	6,544	6,544	0.0%
Gain from sale of investment properties	9,781	4,353	NMF
Gain from sale of inventories of repossessed collateral	2,577	2,383	8.1%
Revenues from non-credit related fines	683	1,408	-51.5%
Gain on disposal of premises and equipment	352	1,017	-65.4%
Other	9,786	14,999	-34.8%
Other operating income	**31,438**	**31,797**	**-1.1%**
Gross insurance profit	**12,275**	**6,773**	**81.2%**
Other operating non-interest income and gross insurance profit	**151,916**	**131,009**	**16.0%**

NMF – no meaningful figures

Total other operating non-interest income and gross insurance profit increased by GEL 20.9 million, or 16.0%, to GEL 151.9 million in FY 2018. This mainly resulted from the rise in net income from foreign currency operations by GEL 15.4 million, or 16.8%, mainly due to an increased number and volume of FX transactions. Another contributor was gross insurance profit up by GEL 5.5 million, or 81.2%.

The increase in gross insurance profit was mainly related to increased cross selling of various insurance products and improved efficiency levels. More information about TBC insurance can be found on pages 46 to 47.

Credit loss allowance[1]

In thousands of GEL	2018	2017	*Change*
Credit loss allowance for loan to customers	(143,723)	(93,823)	53.2%
Credit loss allowance for investments in finance lease	(1,765)	(492)	NMF
Credit loss allowance for performance guarantees and credit related commitments	(4,056)	(153)	NMF
Credit loss allowance for other financial assets	(16,609)	(12,439)	**33.5%**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(86)	-	NMF
Total credit loss allowance	**(166,239)**	**(106,907)**	**55.5%**
Operating income after credit loss allowance	**921,229**	**754,078**	**22.2%**
Cost of risk	**1.6%**	**1.2%**	**0.4 pp**

NMF – no meaningful figures

In FY 2018, total credit loss allowance increased by GEL 59.3 million to GEL 166.2 million, compared to FY 2017. The main contributor to the growth was credit loss allowance for loans to customers up by GEL 49.9 million. The increase was mainly attributable to the corporate segment following a high recovery of credit loss in FY 2017.

1 The figures for 2017 are calculated per IAS 39 and therefore are not comparable with 2018 figures, which are based on IFRS 9

Operating expenses

In thousands of GEL	2018	2017	*Change*
Staff costs	**220,354**	**203,100**	**8.5%**
Provisions for liabilities and charges	**4,000**	**(2,495)**	**NMF**
Depreciation and amortization	**45,740**	**37,265**	**22.7%**
Professional services	13,951	14,332	-2.7%
Advertising and marketing services	29,575	18,430	60.5%
Rent	24,389	23,132	5.4%
Utility services	6,491	6,067	7.0%
Intangible asset enhancement	11,366	10,304	10.3%
Taxes other than on income	6,757	5,670	19.2%
Communications and supply	5,173	4,063	27.3%
Stationary and other office expenses	4,841	4,936	-1.9%
Insurance	4,589	2,461	86.5%
Security services	2,040	1,965	3.8%
Premises and equipment maintenance	6,098	5,413	12.7%
Business trip expenses	2,273	2,021	12.5%
Transportation and vehicles maintenance	2,043	1,637	24.8%
Charity	1,074	1,045	2.8%
Personnel training and recruitment	1,880	1,444	30.2%
Write-down of current assets to fair value less costs to sell	(1,026)	(538)	90.7%
Loss on disposal of Inventory	137	1,239	-88.9%
Loss on disposal of investment properties	96	442	-78.3%
Loss on disposal of premises and equipment	860	492	74.8%
Impairment of intangible assets	1	1,916	-99.9%
Acquisition costs	-	2,447	-100.0%
Other	18,327	12,612	45.3%
Administrative & other operating expenses	**140,935**	**121,530**	**16.0%**
Operating expenses	**411,029**	**359,400**	**14.4%**
Profit before tax	**510,200**	**394,678**	**29.3%**
Income tax expense	(72,765)	(34,750)	NMF
Profit for the period	**437,435**	**359,928**	**21.5%**
Cost to income	**37.8%**	**41.7%**	**-3.9 pp**
ROE	**22.0%**	**20.9%**	**1.1 pp**
ROA	**3.2%**	**3.1%**	**0.1 pp**

NMF – no meaningful figures

In FY 2018, total operating expenses expanded by GEL 51.6 million, or 14.4%, YoY. This mainly resulted from an increase in: staff costs by GEL 17.3 million, or 8.5%; depreciation and amortisation by GEL 8.5 million, or 22.7% and administrative expenses by GEL 19.4 million, or 16.0% (mainly related to the growth of advertising and marketing services). The growth across the board resulted from the overall expansion of the business scale, the higher performance and the costs of the mandatory deposit insurance, which was introduced at the end of 2017. Without the mandatory deposit insurance expenses, total operating expenses and administrative & other operating expenses would have increased by 12.9% and 11.6% respectively.

As a result, cost to income ratio was 37.8% in FY 2018, 3.9 pp lower than the 41.7% in FY 2017.

Income tax
In FY 2018, TBC Bank reversed the one-off deferred tax gain, which was recognised in 2016 due to the recent amendment to the Georgian Tax Code in relation to corporate income tax.

The amendment, which came into force on 12 June 2018, postponed the tax relief for re-invested profit from 1 January 2019 to 1 January 2023 for financial institutions. This reversal has resulted in a GEL 17.4 million expense on the profit and loss statement and a GEL 5.1 million reduction in equity in FY 2018.

Net income
Net income for FY increased by GEL 77.5 million, or 21.5%, YoY and stood at GEL 437.4 million, while underlying net income (without reversal of one-off deferred tax gain mentioned above) increased by GEL 85.6 million or 23.2% YoY and amounted to GEL 454.9 million.

As a result, underlying ROE stood at 22.8%, up by 1.4pp YoY, while underlying ROA stood at 3.3%, up by 0.1pp YoY. Reported ROE stood at 22.0%, up by 1.1pp YoY, and reported ROA remained broadly stable on YoY basis and stood at 3.2%.

BALANCE SHEET DISCUSSION

In thousands of GEL	**Dec-18**	**Dec-17**	***Change***
Cash, due from banks and mandatory cash balances with NBG	2,637,036	2,504,938	5.3%
Loans and advances to customers (Net)	10,038,452	8,325,353	20.6%
Financial securities	1,659,442	1,107,476	49.8%
Fixed and intangible assets & investment property	561,020	529,637	5.9%
Other assets	602,043	498,506	20.8%
Total assets	**15,497,993**	**12,965,910**	**19.5%**
Due to credit institutions	3,031,503	2,620,714	15.7%
Customer accounts	9,352,142	7,816,817	19.6%
Debt securities in issue	13,343	20,695	-35.5%
Subordinated debt	650,919	426,788	52.5%
Other liabilities	244,118	190,442	28.2%
Total liabilities	**13,292,025**	**11,075,456**	**20.0%**
Total equity	**2,205,968**	**1,890,454**	**16.7%**

Assets
As of 31 December 2018, the Group's total assets amounted to GEL 15,498.0 million, up by GEL 2,532.1 million, or 19.5%, YoY. The increase was mainly due to a rise in net loans to customers by GEL 1,713.1 million, or 20.6%, YoY. Other contributors to the increase were a GEL 552.0 million, or 49.8%, rise in financial securities and a GEL 132.1 million, or 5.3%, increase in liquid assets (comprising cash, due from banks and mandatory cash balances with NBG), compared to 31 December 2017.

As of 31 December 2018, the gross loan portfolio reached GEL 10,372.6 million, up by 21.3% YoY, while the proportion of gross loans denominated in foreign currency increased by 0.4 pp on a YoY basis and accounted for 60.1% of total loans.

ASSET QUALITY

PAR 30 by Segments and Currencies

	Dec-18			Dec-17		
PAR 30	**GEL**	**FC**	**Total**	**GEL**	**FC**	**Total**
Corporate	0.7%	0.3%	**0.4%**	0.0%	2.0%	**1.5%**
Retail	4.0%	1.5%	**2.6%**	2.9%	2.0%	**2.4%**
MSME	2.4%	3.2%	**2.8%**	1.5%	3.1%	**2.5%**
Total	**2.8%**	**1.4%**	**2.0%**	**2.1%**	**2.2%**	**2.2%**

Loans overdue by more than 30 days to gross loans

Total
The total PAR 30 has improved by 0.2 pp YoY driven by improved corporate segment performance.

Retail
The retail segment's PAR 30 increased by 0.2 pp, amounting to 2.6% on a YoY basis, mainly driven by credit cards, fast consumer loans and other higher yield products.

Corporate
The corporate segment's PAR 30 decreased by 1.1 pp YoY, mainly driven by the repayment of one large corporate client as well as an overall improvement of the corporate loan book.

MSME
The MSME segment's PAR 30 increased by 0.3 pp YoY, mainly attributable to SME.

NON-PERFORMING LOANs (NPLs)

	Dec-18			Dec-17		
NPLs	**GEL**	**FC**	**Total**	**GEL**	**FC**	**Total**
Corporate	1.6%	3.1%	**2.7%**	0.0%	4.2%	**3.2%**
Retail	3.7%	2.3%	**2.9%**	2.6%	2.8%	**2.7%**
MSME	2.6%	5.5%	**4.2%**	2.2%	6.0%	**4.6%**
Total	**2.9%**	**3.3%**	**3.1%**	**2.1%**	**4.1%**	**3.3%**

Total
The total NPLs has improved by 0.2 pp YoY driven by improved corporate segment performance.

Retail
The retail segment's NPLs increase by 0.2 pp to 2.9% on YoY basis, mainly driven by credit cards, fast consumer loans and other higher yield products.

Corporate
The corporate NPLs stood at 2.7%, down by 0.5 pp on YoY basis, due to the overall improved performance of the corporate loan book, as well as a high portfolio growth in 2018.

MSME
The MSME NPLs decreased by 0.4 pp on a YoY basis and stood at 4.2%. This was driven by the improved performance in NPLs in both the micro and SME portfolios.

	Dec-18		Dec-17	
NPLs Coverage	Exc. Collateral	Incl. Collateral	Exc. Collateral	Incl. Collateral
Corporate	96.4%	286.9%	86.6%	211.0%
Retail	132.4%	204.4%	154.0%	237.3%
MSME	68.4%	174.0%	54.6%	170.6%
Total	**102.7%**	**216.4%**	**104.7%**	**209.4%**

LIABILITIES

As of 31 December 2018, TBC Bank's total liabilities amounted to GEL 13,292.0 million, up by GEL 2,216.6 million, or 20.0% YoY. This was primarily due to a GEL 410.8 million, or 15.7%, increase in amounts due to credit institutions and a hike in customer accounts of GEL 1,535.3 million, or 19.6%. Total liabilities also expanded, due to an increase in subordinated debt by GEL 224.1 million, or 52.5%.

LIQUIDITY

As of 31 December 2018, the Bank's liquidity ratio, as defined by the NBG, stood at 33.3%, compared to 32.5% as of 31 December 2017 and above the NBG limit of 30%. As of 31 December 2018, the total liquidity coverage ratio (LCR), as defined by the NBG, was 113.9%, above the 100.0% limit, while the LCR in GEL and FC stood at 102.5% and 121.1% respectively, above the respective limits of 75% and 100%.

TOTAL EQUITY

As of 31 December 2018, TBC's total equity amounted to GEL 2,206.0 million, up by GEL 315.5 million or by 16.7% from GEL 1,890.5 million as of 31 December 2017.

This YoY change in equity was mainly due to net profit contribution of GEL 437.4 million during the last 12 months, which was mostly offset by dividend distribution of GEL 88.9 million in May 2018 and by IFRS 9 transition effect in the amount of GEL 63.6 million as of 1 January 2018.

REGULATORY CAPITAL

According to the newly introduced methodology, as of 31 December 2018 the Bank's Basel III Tier 1 and Total Capital Adequacy Ratios (CAR) stood at 12.8% and 17.9%, respectively, compared to the minimum required levels of 11.8% and 16.7%.

In 31 December 2018, The Bank's Basel III Tier 1 Capital amounted to GEL 1,678.7 million, up by GEL 241.5 million or 16.8%, compared to December 2017, due to increase in net income. The Bank's Basel III Total Capital totalled GEL 2,351.3 million, up by GEL 466.0 million, or by 24.7%. The increase in total capital was attributable to the increase in net income and the growth in subordinated loans. At the end of 2018, the bank attracted GEL 230.5 million subordinated loan, out of which GEL 160.6 million was converted from existing senior loans and the remaining GEL 69.9 million was additionally raised. Risk weighted assets amounted to GEL 13,154.9 million as of 31 December 2018, up by GEL 2,401.7 million, or by 22.3%, compared to December 2017, mainly related to the rise in loan book.

RESULTS BY SEGMENTS AND SUBSIDIARIES

The segment definitions are as follows(updated in 2018):

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

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

Summary of key changes:

- The limits for corporate customers have been increased from GEL 8.0 million to GEL 12.0 million for annual revenue and from US$ 1.5 million to GEL 5.0 million for granted facilities. Additionally, as allowed by policy, some customers were moved to corporate segment on discretionary basis considering practical aspects of client account servicing and administration. As a result, the increase amounted to GEL 66 million and GEL 78 million for corporate loan portfolio and corporate deposit portfolio, respectively;
- Certain sub-categories for the individual business customers that are granted non mortgage loans have been moved from retail to MSME segment. Subsequently, GEL 236 million was transferred from retail to MSME loan portfolio.

Income statement by segments

2018 *(In thousands of GEL)*	**Retail**	**MSME**	**Corporate**	**Corp.Centre**	**Total**
Interest income	609,989	255,833	264,559	153,854	1,284,235
Interest expense	(123,729)	(9,710)	(133,302)	(239,472)	(506,213)
Net transfer pricing	(78,453)	(83,475)	35,531	126,397	-
Net interest income	**407,807**	**162,648**	**166,788**	**40,779**	**778,022**
Fee and commission income	170,082	22,498	40,667	2,454	235,701
Fee and commission expense	(64,270)	(6,861)	(6,661)	(379)	(78,171)
Net fee and commission income	**105,812**	**15,637**	**34,006**	**2,075**	**157,530**
Gross insurance profit	-	-	-	12,275	12,275
Net income from foreign currency operations	28,811	22,002	44,629	(3,764)	91,678
Foreign exchange translation gains less losses/ (losses less gains)	-	-	-	15,196	15,196
Net losses from derivative financial instruments	(223)	-	-	396	173
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	2	2
Other operating income	8,658	748	19,691	2,341	31,438
Share of profit of associates	-	-	-	1,154	1,154
Other operating non-interest income	**37,246**	**22,750**	**64,320**	**27,600**	**151,916**
Credit loss allowance for loan to customers	(118,043)	(15,854)	(9,826)	-	(143,723)
Credit loss allowance for performance guarantees and credit related commitments	(412)	(247)	(2,827)	(570)	(4,056)
Credit loss allowance for investments in finance lease	-	-	-	(1,765)	(1,765)
Credit loss allowance for other financial assets	(3,959)	(2)	(8,634)	(4,014)	(16,609)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	-	-	(95)	9	(86)
Profit before G&A expenses and income taxes	**428,451**	**184,932**	**243,732**	**64,114**	**921,229**
Staff costs	(128,957)	(43,385)	(30,266)	(17,746)	(220,354)
Depreciation and amortization	(36,745)	(4,980)	(2,226)	(1,789)	(45,740)
Provision for liabilities and charges	-	-	-	(4,000)	(4,000)
Administrative and other operating expenses	(90,329)	(21,184)	(12,616)	(16,806)	(140,935)
Operating expenses	**(256,031)**	**(69,549)**	**(45,108)**	**(40,341)**	**(411,029)**
Profit before tax	**172,420**	**115,383**	**198,624**	**23,773**	**510,200**
Income tax expense	(22,898)	(17,250)	(29,907)	(2,710)	(72,765)
Profit for the year	**149,522**	**98,133**	**168,717**	**21,063**	**437,435**

Portfolios by segments

In thousands of GEL	31-Dec-2018	31-Dec-2017
Loans and advances to customers		
Non-mortgage	1,989,516	2,163,425
Mortgage	2,709,183	2,069,728
Retail	4,698,699	4,233,153
Corporate	3,177,289	2,475,392
MSME	2,496,594	1,844,672
Total loans and advances to customers (Gross)	**10,372,582**	**8,553,217**
Less: credit loss allowance for loans to customers	(334,130)	(227,864)
Total loans and advances to customers (Net)	**10,038,452**	**8,325,353**
Customer Accounts		
Retail	5,103,971	4,378,265
Corporate	3,230,653	2,410,862
MSME	1,017,518	1,027,690
Total Customer Accounts	**9,352,142**	**7,816,817**

Retail banking
As of 31 December 2018, retail loans stood at GEL 4,698.7 million, up by GEL 465.5 million, or 11.0%, YoY and accounted for 40.0% market share of total individual loans. Without the re-segmentation effect[1], the retail loan portfolio would have increased by 18.1% YoY. As of 31 December 2018, foreign currency loans represented 56.1% of the total retail loan portfolio.

In the reporting period, retail deposits stood at GEL 5,104.0 million, up by GEL 725.7 million, or 16.6%, YoY accounting for 41.2% market share of total individual deposits. As of 31 December 2018, term deposits accounted for 52.5% of the total retail deposit portfolio, while foreign currency deposits represented 81.7% of the total retail deposit portfolio.

In FY 2018, retail loan yields and deposit rates stood at 14.2% and 2.7%, respectively. The segment's cost of risk on loans was 2.7%. The segment contributed 34.2%, or GEL 149.5 million, to the total net income in FY 2018.

Corporate banking
As of 31 December 2018, corporate loans amounted to GEL 3,177.3 million, up by GEL 701.9 million, or 28.4%, YoY. Without the re-segmentation effect[1], the corporate loan portfolio would have increased by 24.6% YoY. Foreign currency loans accounted for 71.5% of the total corporate loan portfolio. The market share of total legal entities loans stood at 37.4%.

As of the same date, corporate deposits totalled GEL 3,230.7 million, up by GEL 819.8 million, or 34.0%, YoY. Without the re-segmentation effect[2], the corporate deposits would have increased by 29.0% YoY. Foreign currency corporate deposits represented 45.7% of the total corporate deposit portfolio. The market share of total legal entities deposits stood at 41.2%.

In FY 2018, corporate loan yields and deposit rates stood at 9.5% and 4.9%, respectively. In the same period, the cost of risk on loans was 0.4%. In terms of profitability, the corporate segment's net profit reached GEL 168.7 million, or 38.6% of the total net income.

MSME banking
As of 31 December 2018, MSME loans amounted to GEL 2,496.6, up by GEL 651.9 million, or 35.3%, YoY. Without the re-segmentation effect[1], the MSME loan portfolio would have increased by 23.4% YoY. Foreign currency loans accounted for 53.1% of the total MSME portfolio.

As of the same date, MSME deposits stood at GEL 1,017.5 million, down by GEL 10.2 million, or 1.0%, YoY. Without the re-segmentation effect[2], the MSME deposits would have increased by 8.9% YoY. Foreign currency MSME deposits represented 49.3% of the total MSME deposit portfolio.

In FY 2018, MSME loan yields and deposit rates stood at 12.1% and 1.0% respectively, while the cost of risk on loans was 0.7%. In terms of profitability, net profit for the MSME segment amounted to GEL 98.1 million, or 22.4%, of the total net income.

1 In 1Q 2018, GEL 236 million was transferred from retail to MSME portfolio and GEL 66 million was transferred from MSME to corporate loans
2 In 1Q 2018, GEL 78 million was transferred from MSME to corporate deposits portfolio

Consolidated balance sheet as at 31 December

In thousands of GEL	Dec-18	Dec-17
Cash and cash equivalents	1,166,911	1,431,477
Due from other banks	47,316	39,643
Mandatory cash balances with National Bank of Georgia	1,422,809	1,033,818
Loans and advances to customers	10,038,452	8,325,353
Investment securities measured at fair value through other comprehensive income	1,005,239	-
Investments securities available for sale	-	657,938
Bonds carried at amortised cost	654,203	449,538
Investments in finance leases	203,802	143,836
Investment properties	84,296	79,232
Current income tax prepayment	2,116	19,084
Deferred income tax asset	2,097	2,855
Other financial assets	167,518	146,144
Other assets	192,792	156,651
Premises and equipment	367,504	366,913
Intangible assets	109,220	83,492
Goodwill	31,286	28,658
Investments in associates	2,432	1,278
TOTAL ASSETS	**15,497,993**	**12,965,910**
LIABILITIES		
Due to Credit Institutions	3,031,503	2,620,714
Customer accounts	9,352,142	7,816,817
Other financial liabilities	98,714	91,753
Current income tax liability	63	447
Debt Securities in issue	13,343	20,695
Deferred income tax liability	22,237	602
Provisions for liabilities and charges	18,767	13,200
Other liabilities	104,337	84,440
Subordinated debt	650,919	426,788
TOTAL LIABILITIES	**13,292,025**	**11,075,456**
EQUITY		
Share capital	1,650	1,605
Share premium	796,854	714,651
Retained earnings	1,523,879	1,232,865
Group reorganisation reserve	(162,166)	(162,166)
Share based payment reserve	(16,294)	9,828
Revaluation reserve for premises	57,240	70,045
Fair value reserve	8,680	-
Revaluation reserve for available-for-sale securities	-	1,730
Cumulative currency translation reserve	(6,937)	(7,359)
Net assets attributable to owners	**2,202,906**	**1,861,199**
Non-controlling interest	3,062	29,255
TOTAL EQUITY	**2,205,968**	**1,890,454**
TOTAL LIABILITIES AND EQUITY	**15,497,993**	**12,965,910**

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December

In thousands of GEL	2018	2017
Interest income	1,284,235	1,033,939
Interest expense	(506,213)	(429,924)
Net interest income	**778,022**	**604,015**
Fee and commission income	235,701	193,944
Fee and commission expense	(78,171)	(67,983)
Net fee and commission income	**157,530**	**125,961**
Net insurance premiums earned	23,601	12,633
Net insurance claims incurred and agents' commissions	(11,326)	(5,860)
Insurance profit	**12,275**	**6,773**
Net gains from trading in foreign currencies	91,678	87,099
Net gains from foreign exchange translation	15,196	4,374
Net gains/(losses) from derivative financial instruments	173	(36)
Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	2	-
Gains less losses from disposal of investment securities available for sale	-	93
Other operating income	31,438	31,797
Share of profit of associates	1,154	909
Other operating non-interest income	**139,641**	**124,236**
Credit loss allowance for loan to customers	(143,723)	(93,823)
Credit loss allowance for investments in finance lease	(1,765)	(492)
Credit loss allowance for performance guarantees and credit related commitments	(4,056)	(153)
Credit loss allowance for other financial assets	(16,609)	(12,439)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(86)	-
Operating income after credit loss allowance	**921,229**	**754,078**
Staff costs	(220,354)	(203,100)
Depreciation and amortization	(45,740)	(37,265)
(Provision for)/ recovery of liabilities and charges	(4,000)	2,495
Administrative and other operating expenses	(140,935)	(121,530)
Operating expenses	**(411,029)**	**(359,400)**
Profit before tax	**510,200**	**394,678**
Income tax expense	(72,765)	(34,750)
Profit for the period	**437,435**	**359,928**
Other Comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Movement in fair value reserve	6,949	-
Revaluation of available-for-sale investments	-	5,489
Exchange differences on translation to presentation currency	425	181
Items that will not be reclassified to profit or loss:		
Revaluation of premises and equipment	10,749	-
Income tax recorded directly in other comprehensive income	(2,363)	(422)
Other comprehensive income for the period	**15,760**	**5,248**
Total comprehensive income for the period	**453,195**	**365,176**
Profit attributable to:		
- Shareholders of TBCG	435,080	354,410
- Non-controlling interest	2,355	5,518
Profit for the period	**437,435**	**359,928**
Total comprehensive income is attributable to:		
- Shareholders of TBCG	450,903	359,585
- Non-controlling interest	2,292	5,591
Total comprehensive income for the period	**453,195**	**365,176**

Consolidated statements of cash flows for the year ended 31 December

In thousands of GEL	2018	2017
Cash flows from/(used in) operating activities		
Interest received	1,224,606	1,000,571
Interest paid	(501,984)	(424,105)
Fees and commissions received	235,508	195,285
Fees and commissions paid	(78,140)	(68,036)
Insurance premium received	54,682	23,518
Insurance claims paid	(15,174)	(9,127)
Income received from trading in foreign currencies	91,678	87,099
Other operating income received	11,407	8,992
Staff costs paid	(202,897)	(187,520)
Administrative and other operating expenses paid	(136,670)	(112,270)
Income tax paid	(34,918)	(53,916)
Cash flows from operating activities before changes in operating assets and liabilities	***648,098***	***460,491***
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	(343,772)	(98,586)
Loans and advances to customers	(1,718,446)	(1,330,105)
Investment in finance lease	(54,784)	(49,297)
Other financial assets	(35,570)	(38,064)
Other assets	(4,486)	73,814
Net change in operating liabilities		
Due to other banks	69,755	(228,486)
Customer accounts	1,371,675	1,329,071
Other financial liabilities	(12,136)	18,263
Other liabilities and provision for liabilities and charges	3,618	3,487
Net cash from operating activities	***(76,048)***	***140,588***
Cash flows from/(used in) investing activities		
Acquisition of investment securities measured at fair value through other comprehensive income	(717,729)	-
Acquisition of investment securities available for sale	-	(560,226)
Proceeds from disposal and redemption at maturity of investment securities measured at fair value through other comprehensive income	385,352	-
Proceeds from redemption at maturity of investment securities available for sale	-	345,748
Acquisition of bonds carried at amortized cost	(395,717)	(307,248)
Proceeds from redemption of bonds carried at amortized cost	200,658	242,380
Acquisition of premises, equipment and intangible assets	(89,263)	(114,383)
Disposal of premises, equipment and intangible assets	813	1,932
Proceeds from disposal of investment property	42,515	19,082
Acquisition of subsidiaries, net of cash acquired	809	(273)
Net cash used in investing activities	(572,562)	(372,988)
Cash flows from/(used in) financing activities		
Proceeds from other borrowed funds	1,776,489	1,461,191
Redemption of other borrowed funds	(1,515,562)	(800,333)
Proceeds from subordinated debt	255,900	119,859
Redemption of subordinated debt	(60,910)	(59,671)
Proceeds from debt securities in issue	(7,596)	-
Redemption of debt securities in issue	-	(2,123)
Dividends paid	(85,484)	(67,927)
Issue of ordinary shares	-	29
Net cash flows from financing activities	***362,837***	***651,025***
Effect of exchange rate changes on cash and cash equivalents	***21,207***	***67,672***
Net (decrease)/increase in cash and cash equivalents	***(264,566)***	***486,297***
Cash and cash equivalents at the beginning of the year	***1,431,477***	***945,180***
Cash and cash equivalents at the end of the year	***1,166,911***	***1,431,477***

KEY RATIOS

Average balances
The average balances 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 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)	**2018**	**2017**
Underlying ROE[1]	22.8%	21.4%
Reported ROE[2]	22.0%	20.9%
Underlying ROA[3]	3.3%	3.2%
Reported ROA[4]	3.2%	3.1%
ROE before credit loss allowance[5]	30.4%	27.2%
Cost to income[6]	37.8%	41.7%
Cost of risk[7]	1.6%	1.2%
FX adjusted cost of risk[8]	1.5%	1.4%
NIM[9]	6.9%	6.5%
Risk adjusted NIM[10]	5.4%	5.1%
Loan yields[11]	12.3%	12.1%
Risk adjusted loan yields[12]	10.8%	10.7%
Deposit rates[13]	3.2%	3.4%
Yields on interest earning assets[14]	11.4%	11.1%
Cost of funding[15]	4.4%	4.5%
Spread[16]	7.0%	6.6%
PAR 90 to gross loans[17]	1.2%	1.4%
NPLs to gross loans[18]	3.1%	3.3%
NPLs coverage per IFRS 9[19]	102.7%	104.7%
NPLs coverage with collateral per IFRS 9[20]	216.4%	209.4%
Credit loss level to gross loans per IFRS 9[21]	3.2%	3.4%
Related party loans to gross loans[22]	0.1%	0.1%
Top 10 borrowers to total portfolio[23]	10.1%	8.2%
Top 20 borrowers to total portfolio[24]	14.2%	12.4%
Net loans to deposits plus IFI Funding[25]	89.9%	92.5%
Net stable funding ratio[26]	130.2%	124.4%
Liquidity coverage ratio[27]	113.9%	112.7%
Leverage[28]	7.0x	6.9x
Regulatory tier 1 CAR (Basel III)[29]	12.8%	13.4%
Regulatory total 1 CAR (Basel III)[30]	17.9%	17.5%
Dividend pay-out ratio[31]	25.1%	25.0%

Ratio definitions

1. Underlying return on average total equity (ROE) equals underlying 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 adjusted for the respective one-off items; Annualised where applicable.
2. 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.
3. Underlying return on average total assets (ROA) equals underlying net income of the period divided by monthly average total assets for the same period; annualised where applicable.
4. 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.
5. Return on average total equity (ROE) before credit loss allowance equals net income attributable to owners excluding all credit loss allowance divided by the monthly average of total shareholders 'equity attributable to the PLC's equity holders for the same period.
6. 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).
7. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; Annualised where applicable.
8. FX adjusted cost of risk is calculated based on currency rates of the respective prior periods.
9. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities excluding corporate shares, net investment in finance lease, net loans, and amounts due from credit institutions. The latter excludes all items from cash and cash equivalents, excludes EUR mandatory reserves with NBG which currently has negative interest, and includes other earning items from due from banks.
10. Risk Adjusted Net interest margin is NIM minus cost of risk without one-offs and currency effect.
11. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers; annualised where applicable.
12. Risk Adjusted Loan yield is loan yield minus cost of risk without one-offs and currency effect.
13. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits; annualised where applicable.
14. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets; annualised where applicable.
15. Cost of funding equals total interest expense divided by monthly average interest-bearing liabilities; annualised where applicable.
16. 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).
17. 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.
18. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with 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.
19. NPLs coverage ratio per IFRS 9 equals total credit loss allowance for loans to customers calculated per IFRS 9 divided by the NPL loans.
20. NPLs coverage with collateral ratio per IFRS 9 equals the credit loss allowance for loans to customers per IFRS 9 plus total collateral amount of NPL loans (excluding third party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
21. Credit loss level to gross loans per IFRS 9 equals credit loss allowance for loans to customers per IFRS 9 divided by the gross loan portfolio for the same period.
22. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
23. Top 10 borrowers to total portfolio equals the total loan amount of the top 10 borrowers divided by the gross loan portfolio.
24. Top 20 borrowers to total portfolio equals the total loan amount of the top 20 borrowers divided by the gross loan portfolio.
25. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
26. Net stable funding ratio equals the available amount of stable funding divided by the required amount of stable funding as defined in Basel III.
27. Liquidity coverage ratio equals high-quality liquid assets divided by the total net cash outflow amount as defined by the NBG.
28. Leverage equals total assets to total equity.
29. Regulatory tier 1 CAR equals tier I capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
30. Regulatory total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the Pillar 1 requirements of the NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
31. Dividend pay-out ratio for 2018 is based on 2017 performance. Dividend pay-out ratio for 2017 is based on 2016 performance.

Exchange Rates

To calculate the YoY growth of the Balance Sheet items without the currency exchange rate effect, we used the US$/GEL exchange rate of 2.5922 as of 31 December 2017. As of 31 December 2018, the US$/GEL exchange rate equalled 2.6766. For P&L items growth calculations without currency effect, we used the average US$/GEL exchange rate for the following periods: FY 2018 of 2.5345, FY 2017 of 2.5117.

ANNEX 1

In thousands of GEL	2018	2017
Reported net interest income	**778,022**	**604,015**
Reported net fee and commission income	**157,530**	**125,961**
Reported gross Insurance Profit	**12,275**	**6,773**
Reported Other operating income	**139,641**	**124,236**
Reported operating income	**1,087,468**	**860,985**
Reported total provision expenses	**(166,239)**	**(106,907)**
Reported operating income after provisions	**921,229**	**754,078**
Reported Operating expenses	**(411,029)**	**(359,400)**
One-off costs related to Bank Republic integration (consulting costs)	*-*	*(10,925)*
Underlying operating expenses	**(411,029)**	**(348,475)**
Reported profit before tax	**510,200**	**394,678**
Underlying profit before tax	**510,200**	**405,603**
Reported income tax	**(72,765)**	**(34,750)**
Reversal of the one-off deferred tax gain	*(17,426)*	*-*
Effect on tax of one-off items	*-*	*1,639*
Underlying income tax	**(55,339)**	**(36,389)**
Reported net profit	437,435	359,928
Underlying net profit (APM)	**454,861**	**369,214**
Reported non-controlling interest (NCI)	2,355	5,518
Effect on NCI of one-off items	*-*	*120*
Underlying NCI	**2,355**	**5,638**
Reported net profit less NCI	**435,080**	**354,410**
Underlying net profit less NCI	**452,506**	**363,576**

In thousands of GEL	2018	2017
Average reported equity attributable to the PLC's equity holders	**1,977,359**	**1,694,895**
Adjustment for one-off items on monthly average basis	*10,088*	*5,025*
Average underlying equity attributable to the PLC's equity holders	**1,987,447**	**1,699,920**
Average reported total assets	**13,623,594**	**11,481,760**
Adjustment for one-off items on monthly average basis	*-*	*-*
Average underlying total assets	**13,623,594**	**11,481,760**

	2018	2017
Reported Return on Equity	22.0%	20.9%
Underlying Return on Equity (APM)	**22.8%**	21.4%
Reported Return on Assets	3.2%	3.1%
Underlying Return on Assets (APM)	**3.3%**	3.2%

CHAIRMAN'S GOVERNANCE OVERVIEW

Dear shareholders,

I am pleased to present our corporate governance report for 2018. As Chairman, I firmly believe that the highest standards of governance should prevail throughout the business and that a sound corporate governance framework is vital to ensure our business functions effectively, while at the same time creating long-term, sustainable value for our shareholders.

We understand that the Board requires the right balance of skills, country-specific knowledge, and diversity of experience and perspectives to achieve maximum effectiveness. For this reason, composition of the Board and gender diversity remained a key focus for the Board this year and I am pleased to report that two new female independent non-executive Directors have joined our Board. Maria Luisa Cicognani and Tsira Kemularia bring extensive banking and financial services experience, helping to ensure that the Board is well placed to function effectively and take opportunities which present themselves to us in the year ahead. Board and committee changes over the past year are set out in further detail in the Corporate Governance and Nomination Committee report.

I am deeply saddened that Eric Rajendra has resigned from the Board due to health reasons. I would like to thank him for his contribution and dedication during the past years and wish him a speedy recovery.

Further to the Company's announcement made on 21 February 2019, the Bank will implement a restructuring of its Supervisory Board whereby Badri Japaridze and I will continue in our roles as the Deputy Chairman and Chairman of TBC Bank Group PLC, and be stepping down from the Supervisory Board of the JSC TBC Bank. This will enable us to focus more on the Group's strategic and international initiatives. The Board of JSC TBC Bank will be joined by two new members, which are being selected by the Corporate Governance and Nomination Committee and will be announced in due course.

Another area of focus for the Board this year has been development of our Strategic Plan. The Board is collectively responsible for overseeing delivery of the Group's strategy and has a significant role to play in determining the purpose of the Group and ensuring that the Group's culture, values, strategy and business model are all aligned in order to create sustainable value for our shareholders. My role as Chairman is to lead the Board and ensure that it works effectively and that in our business the Group applies the highest principles of corporate governance. A summary of our strategy is outlined on page 14-23.

In accordance with the UK Corporate Governance Code (the "Code"), all Directors will be subject to annual re-election by shareholders at our Annual General Meeting.

Mamuka Khazaradze
Chairman
2 April 2019

CORPORATE GOVERNANCE FRAMEWORK

The Group's corporate governance framework provides shareholders with an explanation of how the Company has applied the main principles of the Code as relevant to the Company in 2018 and the Group's approach to governance in practice, the work of the Board and its committees.

COMPLIANCE STATEMENT

As a premium-listed company on the LSE, the Company complies with the Code.

At the date of this report, the Company has applied the principles and complied with the provisions set out in the Code issued by the Financial Reporting Council ("FRC") in April 2016 in full for the Company's 2018 financial year. The Code can be found on the FRC website www.frc.org.uk.

THE BOARD

The Board is collectively responsible for promoting the Group's long term success and the delivery of sustainable value to shareholders by establishing and overseeing the strategic direction of the Company and its business.

The Board is led by the Chairman and provides challenge, oversight and advice to ensure the Company's success. The

Chairman, ensures that there is constructive debate in the boardroom in order to create and maintain an environment where the Board remains open to different viewpoints and ideas.

The Board is comprised of eight members, of which four (namely, Nikoloz Enukidze (SID), Maria Luisa Cicognani, Nicholas Haag and Tsira Kemularia) are considered independent non-executive Directors. The Board views each of these non-executive Directors as being independent of management judgment and character, and free from any business or other relationship that could materially interfere with their exercise of independent judgment.

The Board is the decision-making body in relation to all matters that are significant to the Group. There is a formal schedule of matters reserved for the Board's approval in place to ensure that the Board retains control over key decisions. The matters exclusively reserved for the Board's approval include, among other things, approval of the Group's strategy, long-term objectives, risk appetite, the annual operating and capital expenditure budgets, changes to the Group's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts. The full document is available on our website at www.tbcbankgroup.com.

During the year ended 31 December 2018, the Board considered a wide range of matters, including:

- the strategic development of the Group;
- performance of key business units;
- the consolidated budget and the underlying business unit budgets;
- the interim and full year results;
- payment of a dividend;
- the appropriateness of the going concern basis of financial reporting;
- the assumptions and stress testing applied to preparing the Company's viability statements;
- investment project proposals and expansions into new territories;
- changes to various board Committees and the appointment of new directors; and
- a review of the findings of the externally facilitated Board evaluation exercise and the action plans resulting therefrom.

BOARD COMMITTEES

The Board is supported by its committees (the "Committees") and delegates a broad range of responsibilities to them, while maintaining the effective links between Committees and the Board where required. The Board has four Committees: (i) the Audit Committee; (ii) the Remuneration Committee; (iii) Corporate Governance and Nomination Committee; and (iv) the Risks, Ethics and Compliance Committee. The chair of each Committee reports matters of significance to the Board after each meeting. Each committee is made up of independent non-executive Directors, with the exception of the Corporate Governance and Nomination Committee, which comprises two independent non-Executive Directors and Badri Japaridze, a non-executive Director, who is not considered to be independent under the provisions of the Code.

The detailed roles and responsibilities of each Committee are set out in its terms of reference, which can be found on the website at www.tbcbankgroup.com.

COMMITTEE MEMBERSHIP

	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risks, Ethics and Compliance Committee
Badri Japaridze			Member	
Eric Rajendra[1]	Member	Member	Chairperson	Member
Nikoloz Enukidze	Member	Member	Member	Chairperson
Nicholas Haag	Chairperson	Member		Member
Maria Luisa Cicognani[2]	Member	Chairperson		Member
Tsira Kemularia[3]	Member		Member	Member

Chairperson Member

DIVISION OF RESPONSIBILITIES

There is a clear division of responsibilities between the Chairman, the Chief Executive Officer and the senior independent non-executive Director. As Chairman, Mamuka Khazaradze is responsible for leading the Board to ensure that the Board as a whole performs a full and constructive role in the development and determination of the Group's strategy and overall commercial objectives. He also oversees the Board's decision-making processes. The Chief Executive Officer, Vakhtang Butskhrikidze, is responsible for the Company's day-to-day management and has the principal responsibility of running the Group's business. He is responsible for proposing, developing and implementing the Group's strategy and overall commercial objectives, which is done in close consultation with the Chairman and the Board. In addition, the Board has appointed, in line with the requirements of the Code, Nikoloz Enukidze as the Senior Independent Non-Executive Director, who provides a sounding board for the Chairman. He serves as an intermediary for the other Directors where necessary and meets with investors to discuss the Group's corporate governance matters. This separation of responsibilities between the Chairman, the Chief Executive Officer and the Senior Independent Non-Executive Director ensures that no one individual has unfettered powers of decision-making. The full document detailing the division of responsibilities between the Chairman, the Chief Executive Officer and the senior independent non-executive Director is available on our website at www.tbcbankgroup.com.

BOARD COMPOSITION

The Board currently comprises a Chairman, Deputy Chairman, four non-executive Directors and two executive Directors. In accordance with the Code, the majority of the Board are independent non-executive Directors. Non-executive Directors constructively challenge and scrutinise the performance of management and help develop proposals on strategy. In 2018, there were changes in composition of the Board and details of these changes are set out in the Corporate Governance and Nomination Committee report.

The Board has considered the independence of the Company's non-executive Directors as against the factors described in the Code and has determined, as mentioned previously, that all non-executive Directors are independent, except for Mamuka Khazaradze and Badri Japaridze.

Mamuka Khazaradze is the Company's Chairman and he is, for the purposes of the Code, not considered to have been independent on his appointment as the Chairman, due to his role as founder of the Group. The Board is unanimously of the opinion that Mr Khazaradze is an extremely valuable asset to the Company, bringing a wealth of experience in Georgia's banking sector, and that it is, therefore, in the Company's best interests that he should continue as the Chairman of the Company.

Each non-executive Director has an ongoing obligation to inform the Board of any circumstances that could impair his independence.

Details of the individual Directors and their biographies are set out on pages 120 to 124.

1 Mr Rajendra has stepped down from the Board and Committees on 15 March 2019
2 Mrs Cicognani joined the Board on 10 September 2018. She was appointed as the head of the Remuneration Committee and as a member of the Risks Ethics and Compliance Committee and the Audit Committee of the Board on 1 October 2018
3 Mrs Kemularia joined the Board on 10 September 2018. She was appointed as a member of the Risks Ethics and Compliance Committee, the Audit Committee and Corporate Governance and Nomination Committee on 1 October 2018

TIME COMMITMENT

Each non-executive Director is required to devote such time as necessary for the effective discharge of their duties. This includes attendance at the Board meetings and respective Committee meetings of which they are members, as well as scheduled away days, site visits, conference calls and email communication. Non-executive Directors consider all relevant materials prior to each meeting and commit additional time to the Company when it is undergoing a period of particularly increased activity.

BOARD AGENDA

The Chairman is responsible for setting the Board agenda. Prior to each Board meeting the Chairman reviews the agenda and discusses key items of business with the Chief Executive Officer. Board agendas are sent to Board members well in advance of meetings and are structured in such a way as to allow adequate time for discussion of each item on the agenda.

BOARD AND COMMITTEE MEETING ATTENDANCE

In 2018, the Company held 3 scheduled and 19 additional meetings. Moreover, the Chairman and the Chief Executive Officer maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

In addition, the affairs of the Company's main subsidiary, the Bank, are supervised by a supervisory board (the "Supervisory Board"). There is also equivalent committee structure of the Supervisory Board as the Board's committees. There are, therefore, in practice two equivalent supervisory bodies within the Group represented by the Board and the Supervisory Board, which are separate but interconnected together with committees. However, the work of the Board, the Supervisory Board and their respective committees is carefully balanced, dividing functions according to whether they are supervising the topics that impact the Company or solely the Bank.

Further to the Company's announcement made on 21 February 2019, the Bank will implement a restructuring of its Supervisory Board whereby the founding shareholders will not be represented at the supervisory Board of the Bank. The founding shareholders will maintain their positions as the Chairman and Deputy Chairman of the Board of Directors of the Company.

Attendance of meetings of the Board and its Committees in 2018 are set out below:

Board Attendance	**Board meetings eligible to attend/ attended**	**Audit Committee meetings eligible to attend/attended**	**Remuneration Committee meetings eligible to attend/ attended**	**Corporate Governance and Nomination Committee meetings eligible to attend/ attended**	**Risks, Ethics and Compliance Committee Risks, Ethics and Compliance Committee meetings eligible to attend/ attended**
Vakhtang Butskhrikidze (Chief Executive Officer)	22/22	0/0	0/0	0/0	0/0
Giorgi Shagidze (Chief Financial Officer)	22/22	0/0	0/0	0/0	0/0
Non-Executive Directors					
Mamuka Khazaradze (Chairman)	22/22	0/0	0/0	0/0	0/0
Badri Japaridze	22/22	0/0	0/0	7/7	0/0
Eric Rajendra [1]	22/22	9/9	7/7	7/7	4/4
Nikoloz Enukidze [2]	22/22	9/9	7/7	7/6	4/4
Nichola Haag	22/22	9/9	7/7	0/0	4/4
Maria Luisa Cicognani [3]	6/6	3/3	2/2	0/0	2/2
Tsira Kemularia [4]	6/6	3/3	0/0	2/2	2/2
Stefano Marsaglia [5]	15/11	6/5	5/4	0/0	2/2
Stephan Wilcke [6]	15/9	6/6	0/0	4/3	2/2

1 Mr Rajendra stepped down from the Board and Committees on 15 March 2019
2 Mr Enukidze was unable to attend one Corporate Governance and Nomination Committee meeting due to prior business related commitment however he discussed all matters on the agenda with the Chairman of Corporate Governance and Nomination Committee and provided feedback on materials in advance of the meeting
3 Mrs Cicognani joined the Board on 10 September 2018. She was appointed as the head of the Remuneration Committee and as a member of the Risks Ethics and Compliance Committee and the Audit Committee of the Board on 1 October 2018
4 Mrs Kemularia joined the Board on 10 September 2018. She was appointed as a member of the Risks Ethics and Compliance Committee, the Audit Committee and Corporate Governance and Nomination Committee of the Board on 1 October 2018
5. Stefano Marsaglia stepped down from the Board and Committees on 10 September 2018
6 Stefan Wilcke stepped down from the Board and Committees on 10 September 2018

Attendance of meetings of the Supervisory Board and its committees in 2018 are set out below:

Supervisory Board Attendance	Supervisory Board meetings eligible to attend/ attended	Audit Committee meetings eligible to attend/attended	Remuneration Committee meetings eligible to attend/ attended	Corporate Governance and Nomination Committee meetings eligible to attend/attended	Risks, Ethics and Compliance Committee meetings eligible to attend/attended
Mamuka Khazaradze (Chairman)	65/65	0/0	0/0	0/0	0/0
Vakhtang Butskhrikidze (Chief Executive Officer)	23/23	0/0	0/0	0/0	0/0
Giorgi Shagidze (Chief Financial Officer)	24/24	0/0	0/0	0/0	0/0
Badri Japaridze	66/66	0/0	0/0	6/6	0/0
Eric Rajendra [1]	86/86	11/11	10/10	6/6	23/23
Nikoloz Enukidze	86/85	11/11	10/10	6/5	23/23
Nicholas Haag	86/86	11/11	10/10	0/0	23/23
Maria Luisa Cicognani [2]	32/32	2/2	3/3	0/0	5/5
Tsira Kemularia [3]	32/32	2/2	0/0	1/1	5/5
Stefano Marsaglia[4]	54/50	8/7	7/5	0/0	18/16
Stephan Wilcke[5]	54/51	8/8	0/0	5/4	18/17

DIVERSITY POLICY

The Board recognises the importance of ensuring diversity and sees significant benefit to our business in having a Board and management team that is drawn from a diverse range of backgrounds, since this brings the required expertise, cultural diversity and different perspectives to the Board discussions and helps to improve the quality of decision making.

During 2018, there were two appointments to the Board of female Directors, Maria Luisa Cicognani and Tsira Kemularia and the Board notes that there are a number of talented women in key positions, who report directly to the CEO and other members of the management board within the Group. Information on the Group's approach to diversity, including, gender balance and how it influences the appointments we make to our Board is set out in the Corporate Governance and Nomination Committee report on pages 129 to 132.

INDUCTION AND TRAINING

A formal induction is arranged for newly appointed Directors based on the individual's need, skills and experience. Typically, these included a series of meetings with the Chairman and other Directors and senior executives, as well as local site visits to provide familiarity with the business. During the year, there were two new appointments to the Board and its Committees. The induction process for Maria Luisa Cicognani and Tsira Kemularia included an on-site business introduction, followed by meetings with executives and key business unit managers and an introduction to the operations, risks, and governance environment of the Group. In addition, the new Directors received training on their duties as directors of a listed company, at the offices of Baker McKenzie LLP, the Company's external counsel.

Moreover, the Chairman takes responsibility to ensure that the Board is updated in a timely manner about the Company's performance, to enable it to make proper decisions. The Chairman ensures information exchanges between the Board, the Committees and executives. If there is a need for independent advice, the Board can seek it directly at the Company's expense.

Members of the Board are required to complete a self-assessment process at the end of the year, where the members of the Board can identify a relevant development programme.

ANNUAL BOARD EFFECTIVENESS EVALUATION

During 2018, an externally-facilitated Board evaluation was conducted by Independent Audit Limited (IAL), an independent specialist. The review was carried out at the initiative of and with the participation of the Corporate Governance and Nomination Committee, which selected the evaluator from a shortlist of leading evaluation

1 Mr Rajendra has stepped down from the Board and Committees on 15 March 2019
2 Mrs Cicognani joined the Supervisory Board on 10 September 2018. She was appointed as the head of the Remuneration Committee and as a member of the Risks Ethics and Compliance Committee and the Audit Committee of the Supervisory Board on 1 October 2018
3 Mrs Kemularia joined the Supervisory Board on 10 September 2018. She was appointed as a member of the Risks Ethics and Compliance Committee, the Audit Committee and Corporate Governance and Nomination Committee of the Supervisory Board on 1 October 2018
4 Stefano Marsaglia stepped down from the Supervisory Board and its committees on 10 September 2018
5 Stefan Wilcke stepped down from the Supervisory Board its committees on 10 September 2018

companies that submitted proposals in response to an RFP. The evaluator was selected following detailed interviews and consideration of relevant sectorial and geographical experience.

The evaluation process included review of board papers, interviews and observation of meetings. The evaluators carried out in-depth individual interviews with all Board members in Tbilisi and London, as well as follow-up interviews where necessary. Independent Audit also interviewed key management personnel and various functional heads to discuss their views of the Board, experience of interacting with it and the information they provided to the Board. Independent Audit attended meetings of the Board and most Committees to observe the Board's processes and the dynamics between the various Board members and attendees.

A full report of IAL's findings was discussed with the Chairman, the Deputy Chairman of the Board and the Chairman of the Corporate Governance and Nomination Committee. The report was then circulated to all Directors. Subsequently, the Committee and the Board discussed the report, with the evaluator participating by conference call, and formulated an action plan for 2019.

The report noted that the Company aims to meet the highest international standards, and highlighted the strong foundation on which the Company can develop further its governance structures. The report found that the Board benefits from a highly experienced Chairman, an open and constructive management team, and a co-operative relationship between executives and the non-executive Directors. Executives value both input and challenges from the non-executive Directors. According to the evaluation report, these factors were complemented by a strong secretarial presence supporting the Board processes.

During the Board meeting in February 2019, the Board agreed an action plan for 2019. The principal areas to be addressed are:

Succession planning and Board skills
Continue to develop robust succession plans for both non-executive and executive board members, based on a clear view of the full range of skills currently available to it and potentially required in future.

Information flow to the Board
Work on improving information flows to the Board. In particular, management to aim to produce more focused Board papers, and to give the Board more exposure to key managers.

The Board's focus
Increase the Board's focus on the Group's strategic development, while continuing to maintain robust oversight of the underlying culture and risk environment.

Adjustments to the Board and Committee meeting structure
Implement various organizational changes to maximise the Board's allocation of time on key issues, including adjusting the length and agendas for the meetings, and holding joint committee meetings on topics of interest to more than one committee.

During 2019, the implementation of the detailed action plan (as adopted by the Board in February 2019) will be monitored by the Corporate Governance and Nomination Committee and progress will be reported in the 2019 Annual Report, alongside the outcome of the annual Board evaluation for 2019. The Company intends to continue to undertake regular annual Board reviews in line with the requirements of the Code.

IAL has confirmed that this report is a fair summary of the review and its outcomes.

DIRECTORS' COMMITMENTS

The Directors are required to disclose to the Board their external appointments or other significant commitments prior to their appointment.

Each non–executive Director is required to devote such time as is necessary for the effective discharge of their duties. Whilst our non-executive Directors hold external directorships or other external positions, the Board believes they still have sufficient time to devote to their duties as a Director of the Company and that the other external directorships/positions held provide the Directors with valuable expertise which enhances their ability to act as a non-executive Director of the Company. No significant changes to the commitments of the Chairman or non-executive Directors were identified during the year 2018.

RE-ELECTION OF DIRECTORS

As mentioned above, all Directors are subject to annual re-election by shareholders at our Annual General Meeting, in accordance with the Code. Biographical details of the Directors are included on pages 120 to 124.

REMUNERATION COMMITTEE

Information on the Remuneration Committee is included in the Directors' Remuneration report on pages 136 to 155.

ENGAGEMENT WITH SHAREHOLDERS

Effective communication with shareholders is given high priority by the Board. The Chief Executive Officer and the Chief Financial Officer, together with the Deputy Chairman and/or the Chairman, maintain very close engagement with the Company's major shareholders. They have participated in non-deal roadshows across numerous geographic locations to promote the awareness and understanding of the Group's business. In addition to roadshows, the Bank's senior executive team and Directors were involved in hosting a capital markets day in London. They also hold regular investor calls and also conduct face-to-face meetings with investors visiting Georgia and take an active part in government events abroad aimed at increasing investor confidence in the economic stability of the country and its sustainable development.

The Company has a dedicated investor relations section on its website, which contains information on all disclosures made to the market, including results presentations and annual reports.

All announcements issued to the LSE are available on the Group's website at www.tbcbankgroup.com.

Moreover, any shareholders of the Company, potential investors and analysts are able to ask questions about the Group through Company's permanent representative in London, who is always available for investor meetings and updates relating to investor relations and international media on behalf of the management team. The Chief Executive Officer, Chairman and Senior Independent Director are also available to discuss the concerns of shareholders at any point during the year.

ANNUAL GENERAL MEETING

The last Annual General Meeting ("AGM") of the Company was held on 21 May 2018 at the offices of Baker McKenzie, 100 New Bridge Street, London. 85.90% of total voting rights were exercised by shareholders. All resolutions put to shareholders were passed with votes in favour ranging from 90% to 100 % of the votes cast.

The 2019 AGM Notice will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on our investor relations website: www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our investor relations website www.tbcbankgroup.com.

DIRECTORS' REPORT

The Directors present their Annual Report together with the audited consolidated accounts for the year ended 31 December 2018, which can be found on pages 167-297 .

The Strategic Report on pages 2 to 106 was approved by the Board on 2 April 2019 and signed on its behalf by Vakhtang Butskhrikidze, the Company's Chief Executive Officer.

The Management Report together with the Strategic Report on pages 2 to 106 form the Management Report for the purposes of DTR 4.1.5. R.

Other information that is relevant to the Directors' Report and incorporated by reference into this report can be located as follows:

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DIRECTORS' CONFLICTS OF INTERESTS

The Company, in accordance with the requirements of the Companies Act 2006 and the Company's articles of association (the "Articles of Association"), requires Directors to declare actual or potential conflicts of interest that could interfere with the interests of the Company. The Directors are required, prior to the Board meetings, to declare any conflict of interest they may have in relation to the matters under consideration and if so, abstain from voting and decision-making, in relation to the matter in question.
Directors have a continuing duty to notify the Chairman and Company Secretary as soon as they become aware of any potential or actual conflicts.

DIRECTORS' INDEMNITIES AND INSURANCE

The Group maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Neither the indemnity nor insurance cover provides cover in the event that a Director, officer or company secretary is proved to have acted fraudulently or dishonestly. The above referred liability insurance and indemnities were in force during the course of the financial year ended 31 December 2018 and remain in force as at the date of this report.

POLITICAL DONATIONS

The Group did not make any political donations or incur any political expenditure during 2018.

RELATIONSHIP AGREEMENT

On 31 May 2016, the Company entered into a relationship agreement with Mamuka Khazaradze, Badri Japaridze, Vakhtang Butskhrikidze, Temur Japaridze, Bob Meijer and David Khazaradze (together the "Presumed Concerted Party Group") (the "Relationship Agreement") to regulate the degree of control that the members of the Presumed Concerted Party Group and their associates may exercise over the Group's management and business. The principal purpose of the Relationship Agreement is to ensure that the Company and its subsidiaries are capable at all times of carrying on their business independently of members of the Presumed Concerted Party Group and their associates.

Under the Relationship Agreement, for as long as it remains in force, the members of the Presumed Concerted Party Group shall, and have agreed that each of their associates shall, when acting in a capacity (which could include as a shareholder or director) with any member of the Group, amongst other things:

- conduct all transactions and arrangements entered into between any member of the Group (on the one hand) and that member of the Presumed Concert Party Group and/or his associates (on the other) on an arm's length basis and on normal commercial terms and in accordance with the related-party transaction rules set out in the Listing Rules;
- not take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and/or
- not propose or procure the proposal of any resolution of the shareholders which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules.

SHARE CAPITAL

As of 2 April 2019, the Company's issued ordinary share capital comprised 54,859,504 ordinary shares with a nominal amount of £0.01 each and carrying one vote per ordinary share at general meetings of the Company. There were no shares held in treasury. The Company has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote.

Details of the movements in share capital during the year are provided in Note 25 to the consolidated financial statements on page 244 of this Annual Report.

PROFIT AND DIVIDENDS

The profit for the financial year ending 31 December 2018 attributable to the Company's shareholders, after taxation, amounts to GEL 435,079,671. The Board intends to recommend GEL 1.98 per share, which will represent about 25% of the net profit, to be distributed to the Company's shareholders as dividend, payable in British Pounds Sterling at an official exchange rate of the National Bank of Georgia for 13 June 2019, which is subject to shareholders' approval at the 2019 AGM. If approved, the final dividend will be paid on 12 July 2019 to shareholders on the Register of Members at the close of business in the UK (ie 6pm London Time) on 7 June 2019.

Shareholders may have their dividends reinvested in the Company by joining Company's scrip dividend programme approved at the 2017 Annual General Meeting. The scrip dividend programme enables shareholders, if they wish, to receive new fully-paid ordinary shares in the company instead of cash dividend.

POWERS OF DIRECTORS

The Directors may exercise all powers of the Company subject to applicable laws and regulations and the Articles of Association.

SPECIAL RIGHTS AND TRANSFER RESTRICTIONS

None of the ordinary shares in the capital of the Company carry special rights with regard to the control of the Company. There are no specific restrictions on transfers of shares in the Company, which is governed by its Articles of Association and prevailing legislation, other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Group's Share Dealing Code, whereby the Directors and designated employees require approval to deal in the Company's shares;
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares; and
- pursuant to the Group's Senior Management Compensation System, whereby Participants (as defined therein) may be granted restricted share awards, which vest subject to continuous employment and malus and clawback provisions over three years from the award date.

All employees (including Directors) that are deemed by the Company to be insiders have complied with the Group's Share Dealing Code. There are no restrictions on exercising voting rights save in situations where the Company is legally entitled to impose such a restriction (for example, under the Articles of Association where amounts remain unpaid in the shares after request, or the holder is otherwise in default of an obligation to the Company). The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

MAJOR SHAREHOLDERS

As at 31 December 2018, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the "DTRs") of the following interests in its total voting rights of 3% or more.

	As of 31 December 2018	
Shareholder	% of voting rights	# of voting rights
Mamuka Khazaradze	13.54%	7,343,936
Badri Japaridze	6.77%	3,669,878
JPMorgan Asset Management	8.40%	4,556,867
European Bank for Reconstruction and Development	8.18%	4,436,406
Schroder Investment Management	7.08%	3,839,205
Dunross &Co	6.01%	3,262,322

During the period 31 December 2018 to 2 April 2019 the Group did not receive any notifications under Rule 5 of the DTRs. Any future regulatory filings by shareholders will be available on the Group's website at www.tbcbankgroup.com and the LSE website at www.londonstockexchange.com.

POWERS OF DIRECTORS TO ISSUE AND/OR BUY BACK COMPANY SHARES

The Companies Act 2006 and the Articles of Association determine the powers of Directors, in relation to share issues and buy backs of shares in the Company. The Directors are authorised to issue and allot shares subject to approval at a general meeting of shareholders. Such authorities were granted to the Directors by shareholders at the annual general meeting of the Company, held on 21 May 2018, authorising the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal value of £178,501. The Company did not repurchase any of its ordinary shares during 2018.

This authority will apply until the conclusion of the 2019 AGM. Shareholders will be requested to renew these authorities at the 2019 AGM.

APPOINTMENT / REPLACEMENT OF DIRECTORS AND AMENDMENT OF ARTICLES OF ASSOCIATION

The appointment and retirement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code and the Companies Act 2016 and related legislation.

Shareholders are authorised to appoint/replace the Directors and make amendments to the Articles of Association by resolution at a general meeting of the Company with the latter being required to be passed as a special resolution.

All of the Directors will stand for annual re-election at the Annual General Meeting. As already mentioned, Maria Luisa Cicognani and Tsira Kemularia were appointed to the Board as non-executive Directors in 2018 and will stand for election by the shareholders at the Annual General Meeting. Vakhtang Butskhrikidze and Giorgi Shagidze have service contracts with the Company, which came into effect on 10 August 2016 and will continue until terminated by either party to such contracts, giving the other not less than seven months written notice. Biographical details and reasons for the reappointment for the Directors are given in the Notice of AGM.

CHANGE OF CONTROL

There are no significant agreements to which the Company is a party of that take effect, alter or terminate upon a change of control of the Company. In addition, there are no agreements between the Company and its employees and the Directors that contain compensation clauses for loss of office or employment that occurs because of a takeover bid, resulting in a case of change of control.

EMPLOYEE DISCLOSURES

The Company's disclosures relating to the employee engagement and policies, as well as human rights, are included in the "Employee Matters" section on pages 74 to 79 of this Annual Report.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors, who held office at the date of approval of this Annual Report, confirm that, so far as they are aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all steps that he/she reasonably should have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of such information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

GOING CONCERN STATEMENT

The Board has fully reviewed the available information pertaining to the principal risks, strategy, financial health, liquidity and solvency of the Group, and determined that

the Group's business remains a going concern. The directors have not identified any material uncertainties that could threaten the going concern assumption and have a reasonable expectation that the Company and the Group have adequate resources to remain operational and solvent for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements). Accordingly, the Group's consolidated financial statements are prepared in line with the going concern basis of accounting.

VIABILITY STATEMENT

In compliance with the Code, the Directors have assessed the viability of the Group over a three-year period beginning on 1 January 2019. The Directors have determined the three-year period ending on 1 January 2022 to be appropriate, as it is consistent with the Group's planning cycle, covering financial forecasts and strategic considerations of the Group. While asseseing the viability of the Group and its operations, the Directors have carried out a robust and thorough assessment of the Group's risk profile including all material existing and emerging risks that could cause the deviation of the Group's financial condition, operations and prospects from the expectations over the period of assessment. As part of their strategic planning, the directors look beyond this period and take into consideration, as far as possible, information from a variety of sources relating to local, regional and other wider macro-economic and political factors which may impact the Group's business and development. At this point, the Directors have no reason to believe that the Group will not stay viable over the longer term period. In addition, the Directors analysed the Group's ability to meet all regulatory requirements.

The Directors' assessment considered:

- All principal risks and uncertainties of the Group and effectiveness of current and proposed mitigating actions.

The key areas of focus were:

(i) foreign exchange rate risk which is significant due to the high dollarisation of the Group's portfolio;
(ii) the risk of economic and political instability and its impact on the Group's future performance;
(iii) the regulatory risk, as a result of significant regulatory changes within the last two years;
(iv) the risk of not meeting regulatory requirements with key focus on minimum capital adequacy and liquidity requirements;
(v) operational risks including cyber security risk given the further digitalization of the Bank's services;
(vi) the risks associated with the Group's international operations.

A summary of all material risks the Group is exposed to and the mitigating actions taken by the Group are set out on pages 50 to 56.

- The Group's strategic plans

While reviewing and analysing the Group's strategic plans, the Directors assessed all potential risks related to the strategic plans, the achievement of the Group's strategic objective and ensured that those risks were properly managed.

The key focus areas were:

(i) the current business position and future prospects of the Group;
(ii) capital, funding and liquidity profile of the Group and;
(iii) the availability and efficient use of respective human and technical resources.

- Effectiveness of the Group's risk management framework, practice and internal control mechanisms.

The Directors ensure that the Group's governance structure enables adequate oversight and accountability, as well as a clear segregation of duties. The involvement of all governance levels in risk management, clear segregation of authorities and effective communications between different entities facilitates clarity regarding the Group's strategic and risk objectives, adherence to the established risk appetite, risk budget and sound risk management. The centralised ERM function ensures effective development, communication and implementation of risk strategy and risk appetite across the Group.

The Directors have determined that the Group's risk management framework is adequate for managing the principal risks and uncertainties set out in the Annual Report and reducing their likelihood and impact wherever possible.

The review and analysis of the information presented in this Annual Report has enabled the Directors to confirm that they have a reasonable expectation of the Group's viability over the next three years up to 1 January 2022 and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period from 1 January 2019 to 1 January 2022.

Regulatory Stress test

In 2018, the Bank performed second round of the enterprise wide regulatory stress testing exercise, which assessed the impact of stress on the Bank's profitability and the capital adequacy.

The stress test covered adverse macro scenario assesing significant GEL devaluation, sharp decrease of real estate prices, decrease in wages and increase in unemployment, negative GDP growth and increase of interest rates. The assumptions are mostly comparable to the stress test experience in 2008.

The results of enterprise wide stress test showed the Bank has the sufficient capital to withstand the stress scenario and stay viable.

The Directors consider the stress scenarios and the associated results to be appropriate to the business, and will continue to monitor these closely on an ongoing basis.

DIRECTORS' RESPONSIBILITIES

The following statement, which should be read together with the Auditor's report set out on pages 167-297, is required by the Companies Act 2006 (the "Act").

The Directors are required to prepare the Company's and the Group's financial statements for each financial year. Under the Act, the Group's financial statements shall be prepared in accordance with the International Financial Reporting Standards (the "IFRS") as adopted by the European Union, and the Directors have elected to prepare the Company's financial statements on the same basis.

The financial statements are required by the Act and the IFRS to present fairly the financial position and performance of the Company and the Group for that period. The Directors must not approve the financial statements, unless they are satisfied that they give a true and fair view of the state of affairs and the profit or loss of the Company and the Group for that period.

The Directors consider that in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgments and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors also believe that the financial statements have been prepared on the going concern basis. Please see further the "Going concern statement" on page 117 of this Annual Report.

In addition, the Group has in place an effective internal control system in order to ensure accurate and reliable financial reporting. The Group has a well-defined framework of accountability and delegation of authority, as well as policies and procedures that include financial planning and reporting; preparation of monthly management accounts; project governance; information security; and review of the disclosures within the annual report and accounts from the respective leads, to appropriately disclose all relevant developments within the Group in the year and to meet the requirements of a true and fair presentation.

The Directors have a responsibility that the Company and the Group keep accounting records, which disclose with reasonable accuracy the financial position of the Company and the Group and enable the Directors to ensure that the accounts comply with the Act.

The Directors are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

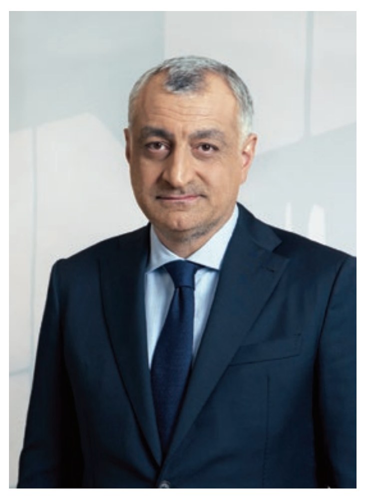
DIRECTORS' RESPONSIBILITY STATEMENT

Each of the Directors, whose names and functions are listed on pages 120 to 124 of this Annual Report, confirms that to the best of their knowledge:

- the Group's financial statements, which have been prepared in accordance with the IFRS standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and Director's Report contained in this Annual Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and 'and provide the information necessary for the shareholders to assess the Company's position and performance, business and strategy.

This responsibility statement was approved by the Board and is signed on its behalf by:

Mamuka Khazaradze
Chairman
2 April 2019



MAMUKA KHAZARADZE

Chairman

Mamuka Khazaradze graduated from the Technical University of Georgia in 1988 and holds a diploma from Harvard Business School, 1998-2000. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1992 he founded and became the president of TBC Bank. In 1995, he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of president until 2004, and between 1999 and 2002, he acted as vice chairman of the supervisory board of Microfinance Bank of Georgia. In 2004, Mr Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the president.Between 1997 and 2007, he was also vice president of the Olympic Committee of Georgia. Since 2010 he has served as the chairman of the board of the American Academy in Tbilisi and the chairman of the supervisory board of Lisi Lake Development. In 2014, Mr Khazaradze was recognised as Entrepreneur of the Year in Georgia by Ernst & Young, the year this prestigious awards programme was launched in the country. Mr Khazaradze has been the Chairman of the Bank's Supervisory Board since its incorporation in 1992 and was appointed as a Chairman of the Board in May 2016.

BADRI JAPARIDZE

Deputy Chairman

Badri Japaridze graduated from the Faculty of Psychology at Tbilisi State University in 1982 and holds a postgraduate qualification from the Faculty of Psychology at Moscow State University. In addition, in 2001, he completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr. Japaridze was a member of parliament in Georgia. In 1992, together with Mamuka Khazaradze, he co-founded TBC Bank and was appointed as head of the Foreign Relations department at the Bank. From 1993 to 1995 Mr. Japaridze served as a Vice President of TBC Bank and in 1995, he was elected to the Bank's Supervisory Board, where he has served as a Deputy Chairman since 1996. During 1996-2014, he was chairman of the board at TBC TV. Between 1995 and 2003, he served as a vice president at Georgian Glass and Mineral Water, of which he was a co-founder. The company was later renamed IDS Borjomi and he was a member of the board between 2004 and 2010. In 2004, Mr. Japaridze was elected as a member of the board of directors of the American Chamber of Commerce in Georgia. In the same year, he was appointed as a member of the board of the Georgian Reconstruction and Development Company, of which he is also a co-founder. In 2006, Mr Japaridze was elected to the supervisory board of the EUGeorgia Business Council and simultaneously became the council's deputy chairman. In 2008, he became a member of the supervisory board at Geoplant, a position that he retains today. In 2013, Mr Japaridze became a member of supervisory board to JSC Chateau Mukhrani of which he is also a shareholder since 2007. In 2016, he co-founded LTD Georgian Wine Holding. Mr Japaridze is also chairman of the supervisory board at TBC Kredit and deputy chairman of the supervisory board at TBC Leasing. Mr Japaridze was appointed as a Deputy Chairman of the Board in May 2016.

NIKOLOZ ENUKIDZE

Senior Independent Non-Executive Director

Nikoloz Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996. Mr Enukidze has served as managing director of corporate finance for Concorde Capital, a leading Ukrainian investment banking firm; assistant director at ABN AMRO Corporate Finance in London for four years; senior manager of business development of Global One Communications LLC based in Reston, Virginia; and three years at ABN AMRO Corporate Finance in Moscow. After years of experience in the financial services industry, Mr Enukidze served as vice chairman of the supervisory board of Bank of Georgia and was one of the key people leading the bank to a successful IPO on the LSE, the first ever IPO in London for a company from the Caucasus region. In 2008, Mr Enukidze was appointed as chairman of the Bank of Georgia board and he led the bank through the international and local financial crisis. At present, Mr Enukidze serves as executive chairman of JSC Caucasus Minerals, a Georgian mineral resources exploration company. He is also member of the board of Nikoil Bank in Azerbaijan. Mr Enukidze was born and raised in Tbilisi and is a Georgian and British national. Mr Enukidze was appointed to the Bank's Supervisory Board as an independent member in 2013 and to the Board as a senior independent non-executive Director in May 2016.

NICHOLAS HAAG

Independent Non-Executive Director

Nicholas Haag earned an M.A. from the University of Oxford with a degree in modern studies in geography in 1980. Mr Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets and technology. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including as the head of equity syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as deputy head of global equity capital markets and later senior banker and head of European client coverage (ex-France); two years at ING Barings between 1999 and 2001 as managing director and global head of technology banking group; six years at ABN AMRO between 2001 and 2007 based in London as the global head of technology banking, member of Global TMT Management Committee, senior managing director and member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as managing director, head of London equity capital markets and member of the Global Equities Origination Management Committee. Since 2012, he served as a senior independent adviser to the chairman of the management board and, from 2013 until November 2016, as a member of the supervisory board of Credit Bank of Moscow and a financial consultant specialising in capital raisings and stock exchange flotations. He also serves as an independent non-executive director of Bayport Management Limited (pan-African and Latin American consumer lender) and since 2016 as a director of AS Citadele Banka in Riga. Since 2012, he has acted as sole director of his own consulting company, Nicdom Limited. Mr Haag was appointed to the Bank's Supervisory Board in 2013 and to the Board as an independent non-executive Director in May 2016. Nicholas Haag has the recent and relevant financial experience required by the UK Corporate Governance Code to fulfil his responsibilities as a designated financial expert on the Audit Committee of TBC Bank Group PLC.

ERIC RAJENDRA

Independent Non-Executive Director

Stepped down from the Board and Committees on 15 March 2019.

Eric Rajendra graduated from Brandeis University, earned his M.A. at the Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an adjunct professor of strategy at INSEAD. During 2005-2014, he held the position of senior adviser to the IFC and has served as a board director or consulting adviser on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a vice president at Capgemini and a vice president at Electronic Data Systems; in both institutions, he was a key leader of the financial services practice. From 2010 to 2012, he was a member of the board of directors at Orient Express Bank. During 2006-2014, he was a member of the board of directors of LOCKOBank, where he was also the chairman of the Audit and Risk Committee. He started his career as a banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company. Mr Rajendra was appointed to the Bank's Supervisory Board in 2010 and to the Board as an independent non-executive Director in May 2016. As announced on 15 March 2019, Eric Rajendra stepped down from his roles as a Director of the Company and a member of the Supervisory Board of the Bank.

MARIA LUISA CICOGNANI

Independent Non-Executive Director

Maria Luisa Cicognani graduated from Bocconi University in 1987 with a degree in Business and Administration. She holds a master degree from the Int'l University of Japan in Japanese Economy and Business. Ms Cicognani has extensive experience in the field of banking and corporate governance. She worked at the European Bank for Reconstruction and Development (London, UK) between 1993 and 2005. Between 2005 and 2006, she was a director of Financial Institutions at Merrill Lynch and a managing director at Renaissance Capital in London and Moscow during 2006-2008. At Renaissance Capital she was responsible for managing a team that developed the FIG practice of the firm both in Africa and CIS. Ms Cicognani was supporting Renaissance Partners in origination, analysis and processing of new FIG investment opportunities and monitoring a portfolio of FIG investments in Africa.During 2008-2014, Maria Luisa was a Managing Director at Mediobanca (London Branch). She was responsible for origination of M&A advisory and client coverage for emerging markets. She supported the M&A and Corporate Finance Teams in advising Italian clients that were interested in expanding outside of Italy or identifying foreign investors. During 2014-2016, she served as a non-executive member of the board at Azimut Global Counseling Srl (Italy) and Azimut International Holding SA (Luxemburg). Since 2015, Ms Cicognani serves as an NED at Arafa Holding (Egypt) and became a board observer at Baird Group (UK), a subsidiary of Arafa Holding (listed on Cairo Stock Exchange). She is currently Chairperson of Möbius Investment Trust. Ms Cicognani was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018.

TSIRA KEMULARIA

Independent Non-Executive Director

Tsira Kemularia graduated from the Louisiana State University with a degree in International Trade and Finance & Economics in 1999. Ms Kemularia has 20 years of international experience in financial services and risk management. From 1999 to 2005, she held various market risk management roles both In Dynegy Inc. in USA and UK and at Shell International Trading & Shipping Ltd (STASCO) in London. From 2005 to 2008, she was Manager, M&A and Commercial Finance, in Group Treasury and Corporate Finance, at Shell International. From 2008 to 2011, she served as a Commercial Finance Manager, M&A in Group Treasury & Corporate finance, at Shell Exploration and Production Services (B.V) in Moscow, RF. Thereafter, she served as Finance Manager and a Country Controller at Shell Western Supply and Trading LTD in Barbados, West Indies from 2011 to 2016. Since 2016, Ms Kemularia is the Head of Group Pensions Strategy and Standards at Shell International Ltd based in London From 2006 to 2010, Ms Kemularia acted as a board member of the British- Georgian Society. In 2011, she joined the board of Shell Western Supply and Trading Ltd. From 2016, she also serves as a board member of British Gas General Partner Ltd and British Gas Trustee Solutions Ltd. Tsira Kemularia is a member of the Institute of Directors in London, UK, and is currently a pursuing chartered director programme. Ms Kemularia was appointed to the Board as an independent non-executive Director of TBC Bank Group PLC and as a member of the Supervisory Board of JSC TBC Bank in September 2018.

VAKHTANG BUTSKHRIKIDZE

CEO

Vakhtang Butskhrikidze joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees. Mr Butskhrikidze was appointed as Chief Executive Officer of the Company in May 2016. He also served as a member of the Supervisory Board from September 2016 till April 2018. Mr Butskhrikidze is also a member of the supervisory board of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. In 2016, Mr Butskhrikidze joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council. In his earlier career, Mr Butskhrikidze acted as junior specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as an assistant to the Minister of Finance of Georgia between 1992 and 1993. In 2001, Mr Butskhrikidze was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011, he was recognised as the "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award. Mr Butskhrikidze was also named as the CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. Mr Butskhrikidze obtained an MBA from the European School of Management in Tbilisi in 2001. He graduated from Tbilisi State University in 1992 with a degree in Economics and holds postgraduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

GIORGI SHAGIDZE

Deputy CEO, CFO

Giorgi Shagidze became deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Bank's Management Board in 2010. Mr Shagidze was appointed as a Chief Financial Officer of the Company in May 2016. He also served as a member of the Supervisory Board from September 2016 till April 2018. He is a board member of Georgian Stock Exchange and also served as member of the supervisory board of Bank Constanta until its merger with TBC Bank in 2015. Prior to joining TBC Bank, Mr Shagidze acted as a global operations executive for Barclays Bank Plc between 2008 and 2010. In his earlier career, Mr Shagidze worked as director of the Distribution Channels Division at Bank of Georgia and deputy CEO of Peoples Bank of Georgia, as well as occupied various senior positions at Tbiluniversalbank and Agro Industrial Bank of Georgia. Mr Shagidze obtained an MBA from the University of Cambridge Judge Business School in 2008 and he graduated from Tbilisi State University in 1997 with a degree in economics. He is also a CFA Charterholder and the member of the CFA Society in the UK.

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES

(EXCEPT FOR CEO'S AND CFO'S BIOGRAPHIES, WHICH ARE PRESENTED ON PAGES 123 TO 124)

PAATA GADZADZE

First Deputy CEO

Paata Gadzadze stepped down from the Management Board of TBC Bank on January 1, 2019. He will continue to serve as Chief Executive Officer of TBC Insurance.

Paata joined TBC Bank in 1994 as deputy general director of TBC Bank and was appointed to the Management Board in 1996. In 2005, he was appointed head of the credit department. Paata held the position of the first deputy CEO from 1998 to 2018. Since 2014, he has held the position of the member of the supervisory board of TBC Leasing. In 2017, he was appointed as CEO of TBC Insurance. Between 2000 and 2004, he also served as CEO of Georgian Pension and Insurance Holding. In his earlier career, Paata was an assistant to the Minister of State Property Management between 1992 and 1994. Since 1994 Paata is an active lecturer and invited professor at Free University, Caucasian Business School and other Academic Institutions in Georgia. Paata graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia.

GEORGE TKHELIDZE

Deputy CEO, Corporate and Investment Banking

George joined TBC Bank in 2014 as Deputy CEO in charge of Risk Management. Following acquisition of Bank Republic and creation of Corporate and Investment Banking (CIB) unit at the Bank in November 2016, George overtook the responsibility for the CIB. George has more than 15 years of experience in financial services. Prior to joining TBC Bank, George worked for Barclays Investment Bank, where he held the position of vice president in the Financial Institutions Group (FIG), EMEA since June 2011. From September 2009 he was an associate director in Barclays debt finance and restructuring teams. During his career with Barclays in London, George worked on and executed multiple M&A, debt and capital markets transactions with European financial institutions. In his earlier career in Georgia, George held various managerial positions at ALDAGI insurance company during 2000-2007, where he also served as chief executive officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and graduate diploma in Law from Tbilisi State University (2000).

DAVID CHKONIA

Deputy CEO, Chief Risk Officer

David joined TBC Bank in 2017 as Chief Risk Officer and deputy CEO following 15 years of international banking and risk management experience. Prior to joining TBC, David was a director at BlackRock in the BlackRock Solutions group advising financial institutions and regulators on topics related to risk management, balance sheet strategy and regulation. Prior to that, he served as senior vice president at PIMCO responsible for the risk advisory practice. In 2009-2011, David worked at European Resolution Capital helping Western European banks with NPL management and recovery strategies in CEE subsidiaries. In 2006, David joined Goldman Sachs in the EMEA Structured and Principal Finance team where he completed a number of innovative financing transactions in the infrastructure and real estate sectors as well as focusing on restructuring assignments. David started his career at the EBRD executing debt and equity investment transactions in CEE as well as has worked in the bank's credit department. David holds a BSc from San Jose State University and an MBA from the Wharton School at the University of Pennsylvania.

TORNIKE GOGICHAISHVILI

Deputy CEO, Chief Operating Officer

Tornike joined TBC Bank in 2018 as Chief Operating Officer and deputy CEO following 20 years of financial services and operations management experience. Prior to joining TBC, he has served as a Deputy CEO, Chief Operation Officer at Bank of Georgia since 2016. Between 2010 and 2016 Tornike served as director of operations' department at Bank of Georgia. He also served as head of international banking at Bank of Georgia Group. Between 2008-2010 Tornike held the position of CFO at BG Bank Ukraine (the subsidiary of Bank of Georgia) and between 2006 and 2008 he held the position of CEO at Insurance Company Aldagi. He also served as chief financial officer of UEDC PA consulting and held various managerial positions at BCI Insurance Company from 1998 to 2004. Tornike graduated from the Faculty of Law at Tbilisi State University and holds an MBA from Caucasus School of Business and an executive diploma from Said Business School, Oxford.

NINO MASURASHVILI

Deputy CEO, Retail Banking

Nino joined TBC Bank in 2000 as a manager in the planning and control department and became head of that department in 2002. Between 2004 and 2005, she acted as head of the sales department and retail bank coordinator. Nino was appointed as deputy CEO, retail and SME banking in 2006. Between 2006 and 2008, Nino was the chairman of the supervisory board of UFC. During 2011-2015 she also held a position of a member of the supervisory board of Bank Constanta until its full merger with TBC Bank. During 2011-2016, Nino has been a member of the supervisory board of TBC Kredit. In her earlier career, she held the positions of credit account manager, credit officer, financial analyst (financial department) and head of the financial analysis and forecasting department at JSC TbilCom Bank between 1995 and 2000. Between 1998 and 2000, she also held the position of accountant at the Barents Group. Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

NIKOLOZ KURDIANI

Deputy CEO, MSME Banking

Nika has more than fifteen years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Nika was managing director at Kaspi Bank, a leading retail bank in Kazakhstan. Prior to obtaining his MBA degree in 2007, he served as head of the retail banking division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking. Between 2008 and 2010, Nika held the position of senior sales support expert at the CEE retail division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was head of the retail division of ATF Bank, UniCredit Group in Kazakhstan. Nika obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr University Bochum in Germany and the Caucasus School of Business.

CHAIRMAN'S LETTER

Dear shareholders,

As announced on 15 March 2019, Eric Rajendra has stepped down due to health reasons from his roles as a Director of the Company and Chairman of the Corporate Governance and Nomination Committee (the "Committee") and equivalent positions on the Supervisory Board of the Bank. As Senior Independent Director, I would like to thank him for his contribution to both the Committee and the Company over the past years, and present the Committee report to shareholders.

The Committee key focus during 2018 was the composition and gender diversity of the Board and its committees. The Committee has led a rigorous process to appoint successors to two independent non-executive Directors, who stepped down from the Board in 2018. An overview of the recruitment process undertaken by the Committee is provided on pages 130 to 131.

The Committee is pleased to report that as a result of its recruitment process two female independent non-executive Directors, Maria Luisa Cicognani and Tsira Kemularia, were appointed to the Board and equivalent positions on the Supervisory Board of the Company's main subsidiary JSC TBC Bank' (the Bank).

In support of the Group's long-term strategy, the Committee considered and implemented changes to the composition of the Board and its committees. These changes included appointment of Maria Luisa Cicognani as the Chair of the Remuneration Committee of the Board and the Supervisory Board of the Bank. She was also appointed as a member of the Risk, Ethics and Compliance Committee and the Audit Committee of the Board and equivalent committees of the Bank's Supervisory Board.

Moreover, Tsira Kemularia was appointed as a member of the Corporate Governance and Nomination Committee, the Audit Committee and the Risk, Ethics and Compliance Committee of the Board and equivalent committees of the Supervisory Board of the Bank.

The Committee will continue to keep under review the structure, size and composition of the Board and its committees to make appropriate recommendations to the Board.

In 2018, the Committee considered a suitable facilitator to undertake an externally facilitated evaluation of the Board's and its committees' performance. Following the Committee's recommendation, the Board commissioned an externally-facilitated evaluation of the Board's and its committees' effectiveness led by Independent Audit Ltd.

The Committee has also considered the updated UK Corporate Governance Code published by the FRC in July 2018 and made appropriate arrangements to take a number of actions during 2019 to ensure that the Company's governance procedures are in compliance with the updated UK Corporate Governance Code (where appropriate).

Nikoloz Enukidze
Senior Independent Director
2 April 2019

MEMBERS OF THE COMMITTEE

As at 2 April 2019, the Committee is composed of two independent non-executive Directors, including Nikoloz Enukidze and Tsira Kemularia, as well as Badri Japaridze, who is not considered to be independent for the purposes of the UK Corporate Governance Code. Eric Rajendra stepped down due to health reasons from his role as a Chairman of the Committee on 15 March 2019, and a replacement Chairman will be announced in due course. During 2018, there have been changes in the composition of the Committee with Tsira Kemularia being appointed to the Board as an independent non-executive Director and a member of the Committee, thereby replacing Stephan Wilcke. As such, the Board believes that the Group complies with the UK Corporate Governance Code and that the majority of the Committee members are free from any relationship or circumstances which may, could, would be likely to, or appear to, affect their judgment.

ATTENDANCE AT COMMITTEE MEETINGS

Only members of the Committee have the right to attend its meetings, but the Committee may invite others, including the Chief Executive Officer, the Head of Human Resources and external advisors, to attend all or part of any meeting if it thinks it is appropriate or necessary. The Committee members meet on a quarterly basis and schedule additional meetings when appropriate. The Company Secretary attends all meetings of the Committee.

The attendance of members at the Committee meetings during the year is set out on page 111.

COMMITTEE ROLE AND RESPONSIBILITIES

The Committee's role and responsibilities are set out in its terms of reference, available on the Group's website: www.tbcbankgroup.com. The Committee's terms of reference is reviewed on an annual basis.

The Committee is responsible for the establishment and oversight of the Group's compliance with the corporate governance guidelines and for making recommendations to the Board in respect of changes or additional actions as the Committee deems necessary.

The main responsibilities of the Committee, in relation to the development and functioning of corporate governance within the Group, are:

- advising the Board periodically with respect to significant developments in the law and practice of corporate governance;
- reviewing the independence standards for Board members;
- monitoring and evaluating the process for assessing the performance and effectiveness of the Board and its committees (including a self-assessment of this Committee); and
- reviewing the structures and procedures of the Board and its relationship with management to ensure it can function independently.

The main responsibilities of the Committee, in relation to nominations, are:

- evaluating the current balance of skills, experience, independence and knowledge of the Board and within the senior management team and, in light of this evaluation, preparing a description of the role and capabilities required for particular appointments;
- ensuring that non-executive Directors are appointed for specified terms, subject to re-election and to statutory provisions relating to the removal of a director;
- considering and making recommendations to the Board on the composition of the senior management team;
- overseeing the induction program for new members of the Board with respect to their Board responsibilities and roles, including ensuring that the non-executive directors have full understanding of the Group's activities; and
- making recommendations to the Board on succession planning for the Board and the senior management team, over the longer term, in order to maintain an appropriate and diverse balance of skills and experience and to ensure progressive training.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Committee considers a skills matrix for appointments to the Board and the Board's committees, and identifies the skills, core competencies, diversity and experience that the Group needs to be able to deliver its strategic aims, to govern the Group appropriately and align with the Group's corporate culture and values. In accordance with the UK Corporate Governance Code, all the Directors will stand for re-election at the Company's Annual General Meeting, including two newly-appointed independent non-executive directors, Maria Luisa Cicognani and Tsira Kemularia. The Committee has carried out externally facilitated performance evaluations and is of the view that each Director demonstrated the level of commitment required in connection with their role on the Board and the needs of the business. An overview of the evaluation is provided on pages 112 to 113.

BOARD RECRUITMENT AND APPOINTMENT PROCESS

The composition of the Board and its committees, including the consideration of potential appointments of non-executive directors with requisite skills and experience to ensure the Board continues to operate effectively, is of key importance for the Group.

The Committee considers a skills matrix to ensure that the Board has a suitable range of experience and knowledge to operate effectively. The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. In identifying suitable candidates, the Committee can seek recommendations from trusted advisors, but may also use external search consultancies to facilitate recruitment. During 2018, the Committee used services of Leathwaite, a UK based executive search company, to identify suitable candidates. Laethwaite is entirely independent of TBC and has no other connection with the Company.

Laethwaite prepared a scope based on the Committee's view of the skills needed on the Board, researched possible candidates and prepared a shortlist of candidates, which was considered by the Committee.

Suitable candidates were identified and considered prior to the Committee making a recommendation to appoint Maria Luisa Cicognani and Tsira Kemularia to the Board, who duly approved the appointments as independent non-executive Directors. Biographical details of Maria Luisa Cicognani and Tsira Kemularia are set out on pages 122 to 123.

The Committee carefully assesses each candidate for membership of the Board against its criteria for Board appointments and ensures that appointees have enough time available to devote to the position. The Committee then decides whether to recommend an appointment to the Board and the Board decides whether to make the appointment.

DIVERSITY

The Committee recognises the importance of ensuring that there is a broad diversity within the Group inclusive of, but not limited to, gender, ethnicity and business experience, while continuing to recommend all appointments based on merit in the context of the skills and experience required. The Committee notes the recommendations of Hampton-Alexander review to improve gender diversity on the boards of directors of companies by setting a target of 33% female representation by 2020 with the same level of representation at executive committee level.

The Committee is pleased to report that during 2018 there were two appointments to the Board of female Directors, Maria Luisa Cicognani and Tsira Kemularia. In addition, the Committee notes that there is a number of talented women in key positions, who report directly to the CEO and other members of the management board within the Group. As at 31 December 2018, some 12% of Group's top management and 37% of Group's middle management roles were performed by females. Moreover, 67% of employees across the Group's entire workforce were female. The Committee will continue to strive to further improve gender diversity going forward at both the Board and management levels.

THE COMMITTEE'S WORK

In 2018, the Committee remained focused on succession planning, diversity matters and assessment of effectiveness of the Board and its committees.

Composition of Board and its committees

The Committee developed a forward looking plan of expected skills and experience needed on the Board in the context of the Group's strategic directions. As part of the consideration of known and expected changes to the Board composition, the Committee carefully re-evaluated the revised skills matrix for the Board.

It conducted a search for non-executive Directors based on the revised skills matrix and taking into consideration gender diversity requirement for the Board. Accordingly, the Committee made a recommendation to appoint Maria Luisa Cicognani and Tsira Kemularia to the Board. Upon Committee's recommendation Maria Luisa Cicognani and Tsira Kemularia were appointed to the Board and its committees in order to replace two non-executive Directors, Stephan Wilcke and Stefano Marsaglia (as stated on pages 130 and131).

Maria Luisa Cicognani is the Chairperson of Marc Mobius Investment Trust, which is an investment trust managed by Mobius Capital Partners and was until recently Chairwoman of Moneta Money Bank in Prague. She has held leadership roles at a range of financial institutions, including Merrill Lynch, Azimut, Mediobanca and the European Bank for Reconstruction and Development. In addition, Maria Luisa Cicognani has more than 12 months experience serving as a remuneration committee member of Moneta Money Bank in Prague.

Tsira Kemularia is currently Head of Group Pensions Strategy and Standards, Group Treasury at Shell International Ltd and a Trustee Director of BG Group Pensions Trustees Ltd. She has held a number of senior Finance positions within Shell in the UK, Russia and the Caribbean.

Succession
The Committee recognises that people are the driving force in sustaining the Group's business and good succession planning contributes to the delivery of the Group's strategy, by ensuring there is the desired mix of skills and experience in current and future executives. During the course of 2018, Eric J. Rajendra, as Chairman of the Committee, met personally with key members of the Management Board and middle management to ensure the Group creates opportunities for current and future leaders. The Committee also considered individuals identified as potential successors of the Group's executives, considered the succession plans for the key business units as well as functional roles and discussed how high performing individuals were identified and developed.

Designated non-executive Director
In advance of the Group's compliance with the requirements of the updated UK Corporate Governance published in July 2018, the Board appointed Tsira Kemularia upon the Committee's recommendation as the designated independent non-executive Director, who is responsible for workforce engagement and facilitation of communication between the Board and the Group's workforce. This role will involve, among other things, appropriate site visits, discussions with management and staff and engagement with other internal stakeholders. In that respect, Tsira Kemularia produced a workforce engagement plan for 2019 and a separate communication plan to facilitate communication between the Board and the Group's workforce.

Corporate governance and independence
The Committee oversaw the continued developments of the Group's corporate governance framework and reviews of its compliance with the Code requirements, independence of non-executive Directors and re-election of non-executive Directors as well as their suitability to continue in office. The Committee is satisfied with Company's compliance with the Code on these matters. The independence review was also satisfactory because all Independent Non-Executive Directors remained independent throughout 2018 year as to both character and judgment.

Board performance evaluation
As required by the UK Corporate Governance Code, the Company undertook a performance evaluation of the Board and its committees in 2018 using an external facilitator, Independent Audit Ltd.

The evaluator was selected following a detailed review of the market, and the formation of a short list. The Committee conducted detailed discussions with the Chairman prior to mandating Independent Audit Ltd with the task of the Board and Committees performance evaluation.

Independent Audit Ltd is entirely independent and has no other connection with the Company. The Committee, on behalf of the Board, conducted the initial briefing session with Independent Audit Ltd and oversaw the evaluation process. Following conclusion of the 2018 review, the Committee considered the outcome of the report and prepared an action plan for the Board to review and agree, which reflected some minor improvements to processes and information flow for the Board. The outcome of the review and the action plan are described on pages 112 to 113.

The Committee will monitor implementation of the proposed action plan in 2019. The Company will appoint an independent evaluator to assist in the performance evaluation process every three years.

LOOKING FORWARD TO 2019

In the coming year, the Committee's workload will include overseeing the implementation of the improvements recommended by the performance evaluation of the Board and its committees undertaken by Independent Audit Ltd. The Committee will continue to monitor the Group's succession planning process to ensure that the next generation of executive management is in place.

In addition, the Committee will consider the Group's overall governance structure, including appointment of two new members of the Supervisory Board of TBC Bank and a new independent non-executive Director of the Company and a new Chairman of the Committee.

The Committee will monitor and implement any changes that might be needed to ensure compliance with the updated UK Corporate Governance Code published in July 2018.

CHAIRMAN'S LETTER

Dear shareholders,

I am pleased to present the Risk, Ethics and Compliance Committee (the "RECC") report for the Group.

Throughout 2018, the RECC continued to take a proactive approach to risk management by closely monitoring and discussing the internal and external challenges the Group faces. Along with regular updates regarding the macroeconomic environment, the Group's risk profile, risk management practices and results, the Committee focused on several other issues, namely:

- Important new regulation, including introduction of the net GRAPE (General Risk Assessment Program) buffer and regulatory changes concerning the responsible lending standards, the details of which are given below under section "Regulatory update";
- Enhancing TBC Banks operational risk management; and
- The review and monitoring of the results produced by IFRS 9 models following TBC Bank's successful transition to IFRS 9 on 1st January 2018.

In addition, the RECC proactively led the review and response to the recent inspection by the NBG, as well as related actions by the Georgian Office of Public Prosecution, of certain transactions including TBC Bank's founders, which took place in 2007 and 2008. Further details on these inspections are outlined on page 68.

The report below summarises the RECC's activities for the year.

Nikoloz Enukidze
Chairman of the Risk, Ethics and Compliance Committee
2 April 2019

COMMITTEE RESPONSIBILITIES

The RECC's primary function is to assist the Board in its oversight of all matters related to the risk management and compliance of the Company and the Group as a whole.

The RECC is responsible for recommending the Group's risk appetite limits to the Board and monitoring the risk profile to make sure that it complies with the established limits. It is also responsible for reviewing, assessing and recommending any actions for the Board to take regarding the Group's overall risk management strategy, as well as the risk management system and associated policies.

The RECC is also responsible for overseeing the Group's compliance activities to ensure that it complies with all applicable laws and regulations and maintains the highest standards of ethical behaviour. The RECC supports fostering an ethical culture within the Group based on the principles of honesty, integrity, fairness and transparency.

The RECC's terms of reference are available on the Group's website: www.tbcbankgroup.com.

COMMITTEE MEMBERS AND MEETINGS

As of 2 April 2019, the RECC consists of four independent, non-executive Directors: Nikoloz Enukidze (Chairman), Nicholas Haag, Maria Luisa Cicognani and Tsira Kemularia. Biographies of the RECC members can be found on pages 120 to124. Eric Rajendra served as a member thoroughout 2018 until stepped down on 15 March 2019.

Ms Cicognani and Ms Kemularia were appointed to the Commitee in Q4 2018 after Stefano Marsaglia and Stephan Wilcke stepped down.

The RECC meets in person on a quarterly basis. At each meeting members review a thorough report on the quarter's risk management results as well as updates on compliance and other areas within its remit. The Chief Executive Officer, CRO, head of compliance and key members of the Group's risk and compliance teams normally attend the meetings. Additional sessions are held remotely, if needed.

Members' attendance at the RECC's meetings during the year, at the Company and the Bank levels, are set out in the Directors' Governance statement on page 111.

RECC ACTIVITIES DURING 2018

In 2018, the NBG introduced a number of important regulatory amendments, including net GRAPE buffer and regulations concerning responsible lending framework. The RECC closely monitored these regulatory changes, reviewing the periodical regulatory updates and discussing these changes, to assess the potential implications for the Group's performance and processes, and to outline ways to manage these processes more effectively.

Additionally, throughout the year the RECC was actively involved in the further enhancement of the Bank's operational risk management.

The RECC's monitoring of the IFRS 9 post implementation process was also one of the key focus areas to ensure that TBC Bank complied with all aspects of the new standard, particularly that the provisioning methodology adequately captures the expected credit losses.

Moreover, the RECC led the internal review and response to the recent inspection by the NBG and related actions by the Georgian Office of Public Prosecution of certain transactions which took place in 2007 and 2008. Further details on these inspections are outlined on page 68.

Apart from the aforementioned activities, the RECC continued to concentrate on its key responsibilities of monitoring the Group's risk management processes, promoting progress in risk management tools and techniques, and implementing mitigation actions against prevailing risks.

Risk appetite

The RECC received and reviewed the risk appetite compliance reports at each of its quarterly meetings, during which the Committee's members discussed the Group's risk profile and respective outlook with the management.

During the course of 2018, the RECC carried out a further review of the updates in risk appetite metrics and limits proposed by the CRO. Key updates made were in relation to the capital adequacy metrics and they were driven by the changes in regulatory capital framework.

Macroeconomic environment in Georgia

The RECC continued to work closely with the Group's economic team with regards to the international, regional and domestic macroeconomic developments. The RECC received a number of comprehensive reports and periodic updates on macroeconomic developments. It also analysed the Group's sensitivity to various scenarios, including adverse developments in the economy and exchange rates, as well as the mitigation actions that could be undertaken to minimize the impact of such developments. Throughout the year, the RECC paid more attention to the sectorial risk assessment and the Group's exposure to specific sectors of Georgian economy. For example, the RECC assessed the health of Georgia's housing market and analysed the overall sustainability of the credit growth within this market from macroeconomic perspective. In addition, new macro-financial initiatives introduced by the government and the central bank were thoroughly reviewed.

Credit risk

The RECC reviewed the performance of the Group's credit portfolio at each meeting during 2018. The RECC was presented with a comprehensive report covering the structure and performance of the Group's portfolio across business segments, products and economic sectors. Additionally, the portfolio FX share and concentration levels were actively monitored.

Throughout the year, the NBG introduced several initiatives concerning responsible lending, the details of which are outlined under the section "Regulatory update" below. The RECC extensively revised each change as well as its impact on TBC Bank's portfolio growth and quality trends.

Operational risk

Throughout the year, one of the key operational risk management focus areas was the Risk and Control Self-Assessment ("RCSA") exercise. Under the RCSA exercise, TBC Bank's top priority processes were reviewed and areas of improvement were identified.

The RECC was actively involved in reviewing the RSCA exercise including risk and control assessment methodology, selection of the processes for RSCA scope, discussion of findings as well as recommendations and the action plan proposed by the operational risk team.

Financial risks

The RECC closely re-examined the Group's financial risk positions on a regular basis, and produced a report that included an assessment of TBC Bank's risks associated with liquidity, FX, banking book interest rates and counterparties. As part of assessing the compliance with the approved risk appetite limits, the Committee monitored TBC Bank's liquidity and funding ratios and the NBG's updated regulations regarding the reduction of interest rates on FX mandatory reserves and the increase of FX mandatory reserves requirement. The RECC reviewed a comprehensive report on the interbank portfolio's performance within the counterparty risk management framework and, in particular, the trade finance-related transactions.

Capital management

The RECC continued to revise the internal capital adequacy assessment process and it monitored closely the compliance with all regulatory ratios under different macroeconomic scenarios. During the meetings, RECC also examined the new initiatives introduced by the NBG during the reporting period and their impact, as well as the expected changes in the minimum capital requirements.

Throughout the year, the Bank actively worked on the capital optimisation exercise which led to significant capital savings. The results of the process were presented and discussed during the RECC's quarterly meetings.

In 2018, the Bank performed the second round of a regulatory stress-testing exercise. The RECC members extensively discussed the NBG stress test methodology and its impact on the Bank's capital adequacy and non-performing loans ratios. Additionally, the most vulnerable sectors were identified

and analysed in details. The main purpose of the regulatory stress-testing exercise is to define the net stress test capital buffer under the Pillar II framework.

Compliance

Throughout the year, the RECC approved the updates of several policies for the Group, and closely scrutinised the Group's related parties list and transaction tracker for the purposes of the UK Listing Rules. Given the significant regulatory changes during 2018 (as described in "Regulatory update" section), the RECC's main attention was paid to the implementation status of regulatory requirements throughout the Group. Additionally, the RECC discussed compliance and anti money laundering topics in details on each quarterly meeting.

NBG inspection related to past transactions

As reported in strategic report, the Bank was subject to an inspection by the NBG during late 2018 and into 2019, in relation to certain transactions that the founders of the Bank undertook in 2007 and 2008 (see also pages 53 and 68). The RECC was actively involved in the oversight of the inspection, and led the response of the directors to the NBG report, both currently and in relation to future actions which might be required to prevent any recurrence. RECC also advised the Board on remedial actions to be taken in connection with the NBG report. In particular, RECC oversaw the directors' actions taken in relation to the situation, including reviewing documentation, challenging the founders, and coordinating plans and remedial actions in relation to corporate governance, current and future related party controls, and controls over identifying and managing any potential conflicts of interest with regard to the Bank's lending practices. This is complementary to the Bank's agreed remedial actions agreed with the NBG (page 68).

Regulatory update

During the reporting period, the NBG introduced numerous initiatives, which the RECC examined to assess their impact on the Group's performance. These initiatives include the following:

- net GRAPE buffer - in the beginning of 2018 the NBG defined the net GRAPE buffer for the Bank. The net GRAPE buffer is a pillar II capital add-on determined through the supervisory process for any material risks not covered by Pillar I and other Pillar II capital buffers defined under NBG capital adequacy framework. The key findings of the NBG that were used to determine the appropriate level of buffer specifically for the Bank were extensively discussed by the RECC during it's meeting;
- the interim regulation on responsible lending standards, introduced in May 2018. According to this regulation, the limits were set for the banks on loan portfolios with no income verification at 25% and 15% of the regulatory capital for unsecured and collateralised loans respectively;
- the full version of the regulation about responsible lending was introduced on 1 January 2019 (thereby replacing the May regulation) and it defined income verification techniques, introduced caps on payment-to-income (PTI) and loan-to-value (LTV) ratios and the maximum maturity of retail loans; Stricter thresholds are applied to loans denominated in foreign currency. The banks will no longer be allowed to disburse loans without income verification and the income verification techniques are currently being discussed between the banks and the regulator to determine appropriate income verification techniques, including analytical approaches;
- the effective interest cap on loans was lowered on 1 September 2018 from 100% to 50% .

Additionally, the NBG introduced a new initiative to facilitate further de-dollarisation of portfolio. The new regulation, in force from January 23rd 2019, increases the limit below which loans cannot be issued in foreign currency from GEL 100,000 to GEL 200,000.

IFRS 9

2018 marked the first year since the Group's transition to IFRS 9. The RECC actively reviewed and monitored the results produced by the IFRS 9 models to ensure that respective outcomes adequately capture expected losses.

THE COMMITTEE'S EFFECTIVENESS REVIEW

The Board and the RECC members conduct a review of the Committee's effectiveness every year. The aim is to assess the RECC's performance as per the international standards of best practice in corporate governance. In 2018, the RECC was found to be effective in overseeing the Group's risk management, compliance activities and ethical standards.

LOOKING AHEAD TO 2019

Going forward, the RECC will continue to focus on its key responsibilities: assessing the quarterly risk results and compliance with TBC Bank's risk appetite, providing the sign-off on transactions with the largest exposures, and facilitating the progress in risk management tools and techniques. The RECC will continue the close monitoring of the impact that recent and upcoming regulatory changes may have on the Bank's financial standing and respective implications for risk management processes. In addition, close attention will be paid in overseeing TBC Bank's international expansion activities to ensure that the risks are managed properly across the Group. Moreover, the RECC will continue to focus on the proper management of risks that may arise from further digitalisation of TBC Bank's services.

CHAIRMAN'S STATEMENT

Dear shareholders,

As Chairman of the Board Remuneration Committee (the "Remuneration Committee"), I am pleased to present the Directors' Remuneration Report for the year ending 31 December 2018.

This is my first year report as Remuneration Committee Chairman as I was appointed on 1st October 2018 and I would like to thank my predecessor, Stefano Marsaglia for his significant contribution during the past years.

I would also like to thank shareholders for their active engagement and strong support for the executive directors' Remuneration Policy, which was approved at the 2018 AGM on 21 May 2018 and which has applied since 1 January 2019 (the full policy is given in 2017 Annual Report, which is available at our website at www.tbcbankgroup.com). We firmly believe, that the new Remuneration Policy is closely aligned with Group's strategic priorities, provides fair reward and meets appropriate regulatory requirements and best practice standards as well as taking into consideration the views of all stakeholders. As we are committed to best corporate governance, the Remuneration Committee will review annually both executive and non-executive directors' compensation and benchmarks to ensure that these are aligned with best market practice. If any material change is required, the Remuneration Committee intends to consult with shareholders before any new proposal is presented for approval at the annual general meeting.

I am looking forward to working with the Remuneration Committee to further develop and improve remuneration practices of the executive directors and principals at TBC Bank.

Principles of Remuneration

The Remuneration Committee continues to ensure that the executive directors' remuneration motivates performance and fosters the Group's strategic goals. The following principles have been considered when determining executive director's remuneration:

- clarity and simplicity- the Remuneration Committee strives to ensure that performance measures are clear and straight-forward;
- risk - the Remuneration Committee has the discretion to reduce an executive director's variable remuneration if specific KPIs have not been met and any element of executive directors' variable compensation is subject to the relevant malus and clawback provisions;
- predictability - the maximum possible value of the executive directors' remuneration has been detailed in the Remuneration Report at section 2.2 below and in the Remuneration Policy;
- proportionality/alignment with culture: the Remuneration Committee strives to ensure that performance measures are aligned with the corporate culture of the Group to foster the right behavior and deliver remuneration packages that are proportionate in the circumstances, by measuring executive directors' remuneration against a mix of financial, non-financial and personal KPIs.

Form of Remuneration

The executive directors' remuneration for 2018 is comprised of:

- fixed compensation consisting of both cash-based and share-based payments;
- annual bonus based on the level of achievement of one-year key performance indicators (KPIs) and consisting of share-based payments only.

The share-based payments in relation to the fixed compensation and the annual bonuses are subject to year continued employment condition and holding period. The employment and holding conditions are lifted for 10% of the total number of shares awarded by the end of the first year, a further 10% by the end of the second year and the remaining 80% by the end of the third year. This approach ensures that the executive directors' interests are closely aligned with the Group's long-term strategy and shareholders' interests.

The non-executive directors' remuneration is in the form of monthly fixed cash payments and is based on best practice and specifically FTSE 250 financial companies board membership fees.

2018 Executive Directors' KPI and Performance

The Group recorded strong financial and operating results in 2018 and successfully achieved its strategic objectives, which once again demonstrates the strong dedication and commitment of the management team led by CEO.

The Remuneration Committee has thoroughly assessed the executive directors' performance against targets set at the beginning of the year and concluded that their performance was above expectations. The Remuneration Committee has also assessed the executive directors' performance against their non-financial and personal KPIs (which take into account specific duties of each executive director). The detailed disclosure of KPIs and performance assessment is given in section 2 of the Remuneration Report.

As a result, the annual bonus awarded to the CEO and CFO represented 85% and 88% of the maximum opportunity in 2018 respectively. The Remuneration Committee has determined that the level of remuneration awarded to the executive directors was appropriate in the circumstances for the reasons stated above.

Changes to the Policy

In the light of new regulatory requirements we have made the following changes to our Remuneration Policy:

- Awards granted to executive directors under the Group's long-term incentive plan ("LTIP" approved by shareholders at the AGM of 21 May 2018 and effective from 1 January 2019) will be subject to a 5 year vesting and holding period (3 year vesting period and an additional 2 year holding and continued employment period after vesting), subject to malus and claw back;
- We have introduced post employment shareholding requirements for executive directors, which will require executive directors to continue to comply with the Shareholding Guidelines (the full document is available at www.tbcbankgroup.com) for a period of two 2 years after they have left the Company;
- We have given the Remuneration Committee the discretion to override the formulaic outcomes of the performance assessment in relation to annual bonus and LTIP. It should be noted that the Remuneration Committee has never used upward discretion and intends to exercise this discretion only in exceptional cases where the Remuneration Committee considers that the executive directors' remuneration has become excessive due to external factors. Thus, it will be solely used for the benefit of shareholders.

Looking ahead

Given the changes to the board structure at TBC Bank Group PLC and JSC TBC Bank level, the compensation to non-executive directors, particularly the Chairman and Deputy Chairman, will be changing from 4 April 2019. For further details, please see page 147.

The Remuneration Committee will continue to review the Remuneration Policy for both executive and non-executive directors on a regular basis to ensure that it is in compliance with regulatory changes and evolving market practices. We will also actively engage with shareholders and other stakeholders to make sure that we take into account their views. Our ultimate goal is to ensure that our Remuneration Policy strongly supports the Group in achieving its strategic objectives and continues to reward and attract the best talent.

Maria Luisa Cicognani
Chairman of the Remuneration Committee
2 April 2019

1. REMUNERATION COMMITTEE

The Company's Remuneration Committee is responsible for establishing and overseeing the Group's Remuneration Policy principles and considering and approving remuneration arrangements of executive directors. Full details of the Remuneration Committee's responsibilities are set out in the Remuneration Committee terms of reference, which are available on our website at www.tbcbankgroup.com.

The Remuneration Committee membership is comprised of solely independent non-executive directors from a wide variety of skills and backgrounds to provide the best input. The membership of the Remuneration Committee changed during 2018 following changes in the composition of the Board. From October 2018 and for the remaining period of the year the members of the Remuneration Committee were: Maria Luisa Cicognani (chairman), Nikoloz Enukidze, Eric Rajendra and Nicholas Haag.

The attendance of members at the Remuneration Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance Statement on page 111.

1.1 Statement of voting at Annual General Meeting

The currently followed Remuneration Policy was presented and approved at the AGM on 21 May 2018 The results were as follows:

No	Resolution	Votes For	% of votes cast	Votes Against	% of votes cast	Total votes	% of issued share capital voted	Votes Withheld
1	To approve the directors' remuneration report	40,247,177	99.20	325,903	0.80	40,573,080	74.88%	5,974,890
2	To approve the directors' remuneration policy	44,987,517	99.95	21,969	0.05	45,009,486	83.07%	1,538,484
3	To approve the Company's Long Term Inventive Plan	44,947,517	99.86	61,969	0.14	45,009,486	83.07%	1,538,484

2. SINGLE TOTAL FIGURE OF REMUNERATION

The tables below summarize the total remuneration earned by each director of the TBC Bank Group PLC (hereinafter referred as "the Company" or "TBCG PLC"), in respect of their employment with the Company's Group (defined as TBC Bank Group PLC and JSC TBC Bank, "TBCG") for the financial years ended 31 December 2018 and 31 December 2017.

2.1 Single total figure for executive directors (audited)

	Vakhtang Butskhrikidze		Giorgi Shagidze	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Salary including:	929	1,027	464	512
Cash salary[1]	454	454	227	227
Deferred share salary[2, 8]	475	573	237	285
Taxable benefits[3, 6]	18	19	2	1
Pension[4]	-	–	-	–
Deferred share bonus award[5, 7, 8]	2,409	3,038	1,250	1,441
Total remuneration	**3,356**	**4,084**	**1,716**	**1,954**

Notes to table:

1. Base salary paid in year to executive directors. No additional fees were paid to executive directors.
2. Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year. The number of shares awarded as deferred share salary is linked to the base salary and its current level is fixed at an annual grant of 17,622 TBCG shares for Mr. Vakhtang Butskhrikidze and 8,811 TBCG shares for Mr. Giorgi Shagidze. Deferred shares in relation to 2017 were awarded on 9 March 2018 and deferred shares in relation to 2018 were awarded on 21 March 2019. Deferred share salaries are subject to a condition of continuous employment for 3 years and malus and clawback provisions. These conditions are lifted as follows: 10% of the award on the first anniversary from the award date, a further 10%, on the second anniversary from award

date and the final 80% of the on the third anniversary from the award date. For the purposes of this table, the 2017 award has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.6816 for GEL/US$ and 3.5499 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company.

3. Taxable benefits comprise medical insurance, company car allowances, and in the case of our CEO, security allowances.
4. The Group does not pay pension contributions to the executive directors. None of the executive directors has a prospective entitlement to a defined benefit pension.
5. A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year. The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. These conditions are lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the on the third anniversary from the award date. Deferred shares in relation to 2017 were awarded on 9 March 2018 and deferred shares in relation to 2018 were awarded on 21 March 2019. For the purposes of this table, the 2017 award has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/ US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.6816 for GEL/ US$ and 3.5499 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The value of the award is determined in line with the achievement of performance measures, as explained in detail in section 2.2 below.
6. Mr. Butskhrikidze and Mr. Shagidze were reimbursed for reasonable business expenses in accordance with the internal policy in force at the time. Such reimbursements have not been included in the single figure table.
7. No money or other assets are received or receivable by the executive directors in respect of a period of more than one financial year where final vesting is determined by reference to the achievement of the performance measures or targets relating to a period ending in 2018 or 2017 (as applicable).
8. The decrease of deferred share salary and deferred share bonus in 2018 as compared to 2017, is largely due to the decrease in share price. A full explanation of the basis of the 2018 deferred share bonus awards is given at section 2.2 which highlights the link between strong company and executive performance for 2018.

2.2 Basis for determining executive directors' deferred share bonus awards (audited)

The 2018 deferred share bonus awards made to executive directors reflect the Remuneration Committee's assessment of the extent to which corporate financial, non-financial and personal KPIs were achieved. Such objectives were set by the Remuneration Committee and agreed by the Board at the beginning of the year.

The compensation is structured by reference to a set of stretch targets for each of the KPIs that is reviewed by the Remuneration Committee. Each KPI has three thresholds: minimum, on target and maximum and is evaluated as follows:

- if the achievement is below minimum level, the evaluation is 0;
- if the achievement is at minimum level, the evaluation is 60%;
- if the achievement is on target, evaluation is 100%;
- the achievement at maximum means evaluation at 140%.

The final evaluation score for the Executive Director is made up of the weighted sum of the scores of all KPIs. As a result, the evaluation of the Executive Director is capped at 140%. If all KPIs are achieved on target, then the Executive Director will receive 100% of the target bonus. The maximum bonus will be 140% of his targeted bonus.

While one KPI can be achieved at maximum level, achieving maximum level across all KPIs is extremely difficult and to date has never been achieved by the Executive Director. Therefore, the maximum bonus has never been paid. The Remuneration Committee will continue to monitor and implement challenging stretch goals for its executives on an annual basis.

The below table illustrates the performance measures set for Mr. Butskhrikidze in respect of 2018, as well as his performance against them. The selected financial performance measures are vital for the long-term financial health of the Group and are also closely monitored by investors. Non-financial measures including HR and customer experience are closely linked to our strategic priorities as described in our business model and strategy section, while TBC PLC share price performance against peer bank measures our relative performance against the closest competitor.

2. SINGLE TOTAL FIGURE OF REMUNERATION CONTINUED

Performance Measure	Weighting[8] %	Minimum (60%)	Target (100%)	Maximum (140%)	Performance	KPI Evaluation[1]
Financial measures	**56%**					
Underling ROE[2]	15%	18.0 – 20.0%	20.0 – 21.1%	> 21.1%	22.8%	140%
Cost to income ratio	15%	40.0 – 38.7%	38.7– 37.4%	< 37.4%	37.8%	100%
NIM	15%	6.0 – 6.3%	6.3 – 6.7%	> 6.7%	6.9%	140%
Cost of risk[3]	11%	2.0 – 1.8%	1.8 – 1.6%	< 1.6%	1.58%	140%
Non-financial measures	**34%**					
HR[4]	10%					
Engagement index for middle management	5%	75–81%	82–89%	>89%	95%	140%
Employee net promoters score	5%	45–49%	50–55%	>56%	66%	140%
Customer Experience[5]	10%					
"The Best Service Company in Georgia" in Retail (gap with number 2 company)	5%	-5–0%	0–10%	>10%	2.3%	100%
NPS in affluent segment (negative gap with peer bank)	5%	25.4 – 22.9%	22.9 – 17.9%	< 17.9%	23.7%	60%
TBCG PLC share price performance against peer bank[6]	14%	<–10%	-10 – +10%	> +10%	-7.2%	100%
Personal KPIs	**10%**					
Leadership[7]	10%	A–	A	A+	A	100%
Total	**100%**					**118%**

Notes to table:

1. Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range.
2. The underlying ROE excludes the one-off costs in the amount of GEL 17.4 million, related to the reversal of deferred tax gain in Q2 due to change in legislation.
3. The cost of risk targets were increased in 2018 due to increased focus on higher yield, higher risk products during the year.
4. Engagement index for middle management and employee net promoters score were measured by an independent consultant.
5. Two indexes were evaluated:
   - "Best Service Company in Georgia in Retail" in the following industries: banking, telecom, insurance and pharmacy, based on surveys conducted by independent research company IPM in December 2018
   - "NPS in affluent segment", based on survey conducted by independent research company IPM in December 2018
6. 2018 Q4 average share price multiple of TBCG PLC compared with that of the peer bank (according to the new policy, which came into force on 1st January 2019, the relative measures will not be used as part of the non-financial measures).
7. Leadership skills are assessed by remuneration committee and were regarded as good.
8. In line with our refreshed strategy and dedicated focus on customer service and HR, the weightings of financial and non-financial KPIs have been slightly changed compared to the previous year as follows: the weighting of cost of risk KPI was reduced by 4%, while HR and customer experience KPIs were increased by 2% each (as they were deemed to be more important in 2018).

As a result, during 2018, the Remuneration Committee therefore considered Mr Butskhrikidze's performance excellent and determined the overall value of the deferred share bonus award of US$ 2,408,813 (being the net value awarded of US$ 1,894,007 grossed up for directors' income tax on deferred bonus share awards). The actual deferred share bonus represented 85% of the maximum annual bonus, which could have been achieved if all the performance measures have been met.

The below table illustrates the performance measures set for Mr. Shagidze in respect of 2018, as well as his performance against them. The selected financial performance measures are vital for the long-term financial health of the Group and are also closely monitored by investors. Non-financial measures including HR and customer experience are closely linked to our strategic priorities as described in our business model and strategy section, while TBC PLC share price performance against peer bank measures our relative performance against the closest competitor. The personal KPIs represent the areas of the major focus for CFO due to its significant impact on the overall performance of the business.

Performance Measure	Weighting %	Minimum (60%)	Target (100%)	Maximum (140%)	Performance	KPI Evaluation[1]
Financial measures	**36%**					
Underling ROE[2]	10%	18.0 – 20.0%	20.0 – 21.1%	> 21.1%	22.8%	140%
Cost to income ratio	9%	40.0 – 38.7%	38.7– 37.4%	< 37.4%	37.8%	100%
NIM	9%	6.0 – 6.3%	6.3 – 6.7%	> 6.7%	6.9%	140%
Cost of Risk[3]	8%	2.0 – 1.8%	1.8 – 1.6%	< 1.6%	1.58%	140%
Non-financial measures	**26%**					
HR[4]	8%					
Employee Engagement Index	4%	75–81%	82–89%	>89%	95%	140%
Employee Net Promoters Score	4%	45–49%	50–55%	>56%	66%	140%
Customer Experience[5]	8%					
"The Best Service Company in Georgia" in Retail (gap with number 2 company)	4%	-5–0%	0–10%	>10%	2.3%	100%
NPS in affluent segment (negative gap with peer bank)	4%	25.4 – 22.9%	22.9 – 17.9%	< 17.9%	23.7%	60%
TBCG PLC share price performance against peer bank[6]	10%	< -10%	-10 – +10%	> +10%	-7.2%	100%
Personal KPIs	**38%**					
Leadership[7]	8%	A-	A	A+	A+	140%
Treasury[8]	12%	95-98% of the budget	98-103% of the budget	>103% of the budget	133%	140%
IR[6]	10%	< -10%	-10 – +10%	> +10%	-7.2%	100%
Cost of IFI borrowed funds[9]	8%	8.15 -7.91%	7.91 – 7.53%	< 7.53%	7.42%	140%
Total	**100%**					**124%**

Notes to table:

1. Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range.
2. The underlying ROE excludes the one-off costs in the amount of GEL 17.4 million, related to the reversal of deferred tax gain in Q2 due to change in legislation.
3. The cost of risk targets were increased in 2018 due to increased focus on higher yield, higher risk products during the year.
4. Engagement for Middle Management and Employee Net Promoters Score were measured by an independent consultant.
5. Two indexes were evaluated:
   - "Best Service Company in Georgia in Retail" in the following industries: banking, telecom, insurance and pharmacy, based on surveys conducted by independent research company IPM in December 2018
   - "NPS in affluent segment", based on survey conducted by independent research company IPM in December 2018
6. 2018 Q4 average share price multiple of TBCG PLC compared with that of the peer bank (according to the new policy, which came into force on 1st January 2019, the relative discounted measures will not be used as part of the non-financial measures and personal KPIs).
7. Leadership skills are assessed by remuneration committee and were regarded as excellent.
8. The figures are based on the bank's IFRS standalone numbers and envisages meeting certain level of income from foreign exchange operations and liquidly management.
9. Cost of IFI borrowed funds adjusted with currency, fund seniority, interest rate nature and Libor and Refinance rate change for the respective floating loans on daily basis.

The Remuneration Committee also considered Mr Shagidze's performance as excellent and determined the overall value of the deferred share bonus award of US$ 1,250,408 (being the net value awarded of US$ 988,595 grossed up for directors' income tax on deferred bonus share awards). The actual deferred share bonus represented 88% of the maximum annual bonus, which could have been achieved if all the performance measures have been met.

According to Georgian tax code, a company is responsible for paying income tax for its employees. As about 95% of the remuneration of CEO and CFO is subject to Georgian tax regulations, the Group pays income taxes for the CEO and CFO total remuneration.

2.3 Further details of fixed and discretionary deferred share compensation granted during 2018 (audited)
The following table sets out further details of the share awards granted to Mr Butskhrikidze and Mr. Shagidze in 2018 in respect of the year ended 31 December 2017.

2. SINGLE TOTAL FIGURE OF REMUNERATION CONTINUED

	Deferred share salary	Deferred share bonus
Type of interest	Direct share award subject to restrictions.	Direct share award subject to restrictions.
Basis on which award was made	As described in note 2 to the table at 2.1 above.	As described in the table and notes at section 2.2 above.
Face value[1] of awards made to Mr. Butskhrikidze	US$ 573,449	US$ 3,037,701
Face value[1] of awards made to Mr. Shagidze	US$ 285,022	US$ 1,441,412
Percentage of award receivable if minimum performance achieved	Legal title to 100% of the shares are registered in the name of participant on the date the award is made. The participant has the right to receive dividends and to vote. The deferred shares, however, are subject to continued employment conditions. The condition on the deferred shares are lifted 10%/10%/80% over the period of three years respectively. The award is part of the executive director's salary set out in his service contract and is not subject to performance measures or conditions.	Legal title to 100% of the shares are registered in the name of participant on the date the award is made. The participant has the right to receive dividends and to vote. The bonus shares, however, are subject to continued employment condition. The condition on the deferred shares are lifted 10%/10%/80% over the period of three years respectively. The performance period is one calendar year.
Continued employment condition	The continued employment condition over three years until 9 March 2021 subject to malus and clawback requirement.	The continued employment condition over three years until 9 March 2021 subject to malus and clawback requirement.
Performance measures	None	See section 2.2 above

2.4 Change in remuneration of the CEO compared with the wider employee population

The table below sets out the increase in salary, benefits and bonus of the CEO compared with that of the wider employee population between 2017 and 2018 :

	Chief Executive	All employees
Salary[1]	-9.6%[2]	18.9%
Cash bonus	0%	-3.5%
Taxable benefits	-3.6%	38.3%
Pension-related benefits[3]	0%	-100%
Deferred share bonus award[4]	-20.7%	-16.9%
Total remuneration	**-17.8%**	**-5.4%**

Notes to table:

1. This includes cash and deferred share salary. The CEO's cash salary increase is calculated in US dollars, the currency which is fixed for his cash salary
2. The decrease in deferred share salary reflects the decrease in the share price. The number of deferred shares awarded as salary has not changed between 2017 and 2018
3. Due to the government's initiative to introduce the accumulated pension scheme, TBC Bank's pension scheme was discontinued on 1st January 2018 and the employees were reimbursed. As the government's scheme did not come into force until 1st January 2019, there were no pension costs during 2018.
4. The actual number of shares awarded to CEO as part of deferred shares bonus decreased from 93,348 shares in 2017 to 89,421 in 2018. The decrease shown in the table also reflects the decrease in the share price as well as number of shares

1 Figures calculated as described in Notes 2 and 5 to the single total figure table at 2.1 above

2.5 Single total figure for non-executive directors (audited)

The table below sets out the remuneration received by each non-executive director for the years ended 31 December 2018 and 31 December 2017. The independent non-executive directors are remunerated based on the number of committees they serve on and chair.

Director	Year	Fees US$'000	Taxable benefits[1] US$'000	**Total remuneration US$'000**
Mamuka Khazaradze	2018	**950**	**37**	**987**
	2017	1,187	29	1,216
Badri Japaridze	2018	**800**	**33**	**833**
	2017	1,149	23	1,172
Nikoloz Enukidze	2018	**166**	**0**	**166**
	2017	160	0	160
Nicholas Haag	2018	**135**	**0**	**135**
	2017	135	0	135
Eric Rajendra	2018	**154**	**0**	**154**
	2017	154	0	154
Stefano Marsaglia[2]	2018	**95**	**0**	**95**
	2017	135	0	135
Stephan Wilcke[2]	2018	**83**	**0**	**83**
	2017	118	0	118
Maria Luisa Cicognani[2]	2018	**38**	**0**	**38**
	2017	0	0	0
Tsira Kemularia[2]	2018	**33**	**0**	**33**
	2017	0	0	0

Notes to table:
1. Taxable benefits comprise medical insurance, car, and security allowance.
2. Stefano Marsaglia and Stephan Wilcke resigned from the Board in September 2018 and were replaced by Maria Luisa Cicognani and Tsira Kemularia respectively.

The table below shows the detailed breakdown of annual fees paid to non-executive director in 2018 and 2017 in relation to different roles paid from both TBC Bank Group PLC and JSC TBC Bank:

	Fees paid in 2018 US$'000	Fees paid in 2017 US$'000
Non-executive director (other than Chairman and Deputy Chairman)	**84**	84
Senior Independent Director	**20**	14
Committee chairmanship	**28**	28
Committee membership	**11**	11

3. REMUNERATION OF THE TOP MANAGEMENT OF JSC TBC BANK

The table below summarizes the total remuneration earned by the top managers of the JSC TBC Bank for the financial years ended 31 December 2018 and 31 December 2017, except for the CEO and CFO (as their remuneration information is disclosed in section 2 of this Report).

Director	Year[5]	Base salary[1] US$'000	Deferred share salary[2] US$'000	Taxable benefits[3] US$'000	Deferred share bonus award[4] US$'000	Total remuneration US$'000
Total for the top managers excluding CEO and CFO	**2018**	**1,490**	**1,666**	**15**	**5,887**	**9,058**
	2017	1,377	2,004	5	8,147	11,533
Per Top manager excluding CEO and CFO (average per 6 members)	**2018**	**248**	**278**	**2**	**981**	**1,510**
	2017	229	334	1	1,358	1,922

3. REMUNERATION OF THE TOP MANAGEMENT OF JSC TBC BANK CONTINUED

Notes to table:

1. Base salary paid in year for executive directors. No fees were paid to executive directors.
2. Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year. The number of shares awarded as deferred share salary is linked to the Base salary. Deferred shares in relation to 2017 were awarded on 9 March 2018 and deferred shares in relation to 2018 were awarded on 21 March 2019. Deferred share salaries are subject to a condition of continuous employment and malus and clawback provisions. These conditions are lifted 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from award date and the final 80% of the award on the third anniversary from the award date. For the purposes of this table, the 2017 award has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2018 award has been valued using the closing market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.6816 for GEL/US$ and 3.5499 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company.
3. Taxable benefits comprise medical insurance and company car allowances.
4. A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year. The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. These conditions are lifted as follows: 10% of the award on the first anniversary from the award date, a further 10% on the second anniversary from the award date and the final 80% of the award on the third anniversary from the award date. Deferred shares in relation to 2017 were awarded on 9 March 2018 and deferred shares in relation to 2018 were awarded on 21 March 2019. For the purposes of this table, the 2017 award has been valued using the market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2018 award has been valued using the market value of the shares on 21 March 2019 (GBP16.0 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.6816 for GEL/US$ and 3.5499 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company.

4. PAYMENTS TO PAST DIRECTORS (AUDITED)

There were no payments made to past directors relating to 2018.

5. PAYMENTS FOR LOSS OF OFFICE (AUDITED)

There were no payments made in relation to loss of office in 2018.

6. STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

The application of our remuneration structures naturally results in our executive directors holding a significant number of shares that are subject to continued employment conditions. In addition, as described in section 10 below, the Company has implemented a new Minimum Shareholding Requirement for executive directors. Deferred shares paid in relation to salary and annual bonus are subject to continuous employment and malus and clawback requirements but are not subject to specific performance conditions.

The following table sets out a summary of each director's shareholdings and share interests in the Company as at 31 December 2018. Although not a Company requirement, some non-executive directors have chosen to become shareholders.

	Number of shares held not subject to the continued employment requirements[1]	Number of shares held subject to the continued employment requirements[2]	Total interests in shares[3]
Mamuka Khazaradze	7,343,936	0	7,343,936
Badri Japaridze	3,669,878	0	3,669,878
Vakhtang Butskhrikidze[4]	696,124	294,702	990,826
Giorgi Shagidze[4]	70,443	146,145	216,588
Nikoloz Enukidze	10,000	0	10,000
Stephan Wilcke	51,075	0	51,075

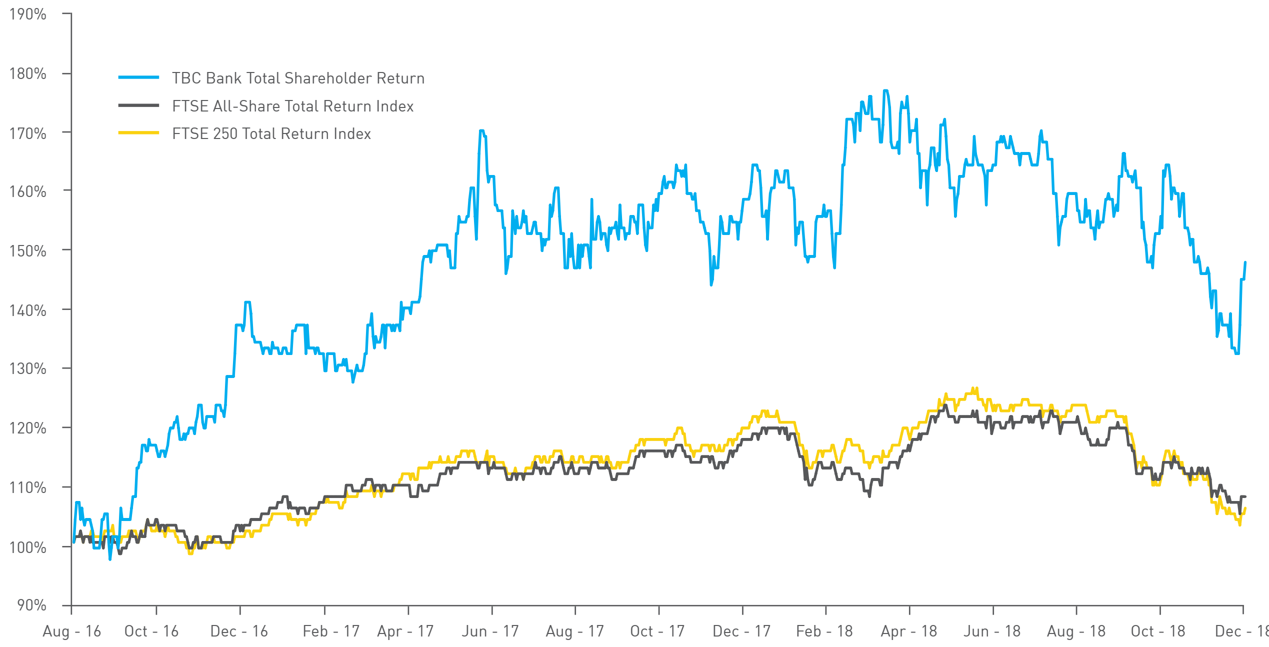
Notes to table:

1. This figure includes all shares held which are no longer subject to any conditions or transfer restrictions.
2. This figure includes shares that are still subject to conditions, including transfer restrictions, a continuous employment condition and malus and clawback provisions. The figure includes shares granted as deferred share compensation each year as a result of the achievement of performance measures for the relevant financial year and deferred share salary. Details of these interests are described at sections 2.1 and 2.2.
3. Total interests in shares includes interests held directly and indirectly.

4. 21 March 2019, the Company has granted share awards to Mr Butskhrikidze and Mr. Shagidze, under the share based payment scheme, in respect of the year ended 31 December 2018. Mr Butskhrikidze has been granted 107,043 shares and Mr. Shagidze has been granted 55,485 shares. These shares are subject to three years continued employment and malus and clawback provisions, and fully meet the conditions 21 March 2022 subject to continuous employment and malus and clawback requirement. These have not been included in the above table. All figures in the table reflect the position as at 31 December 2018. As at 2 April 2019, Mr Butskhrikidze held 292,502 shares and Mr. Shagidze held 146,916 shares that were subject to continued employment conditions.

7. PERFORMANCE: TOTAL SHAREHOLDER RETURN

The following graph compares the total shareholder return (TSR) of the Company for the period from the date when shares were listed on the premium segment of the London Stock Exchange (10 August 2016) to 31 December 2018, with the performance of the FTSE All-Share Index and FTSE 250 Index over the same time period. These market indexes were selected because they are most comparable to the Company in terms of listing and relevant governance and transparency standards. Further, the Company is included in the FTSE All-Share Index and FTSE 250 Index.



Set out below is a table that contains details of Company CEO, Vakhtang Butskhrikidze's remuneration for each financial year in the relevant period:

Financial year	Single total figure of remuneration (US$'000)[1]	Deferred share bonus as a percentage of maximum opportunity (%)[2]
2018	**3,356**	**85%**
2017	4,084	88%
2016	3,017	85%

Notes to table:

1. Total remuneration includes base salary, deferred share salary, deferred share bonus award and taxable benefits as described in the single total figure table and notes at section 2.1 above.
2. For further details of the deferred share bonus please refer to section 2.2 above.

8. RELATIVE IMPORTANCE OF SPEND ON PAY

The following table illustrates the difference in spend on pay for all employees of the Group and the difference in dividend paid to the shareholders between 2018 and 2017. Dividends paid to shareholders in 2018 for the year ended 31 December 2017 increased by 16% as compared to dividends paid to shareholders in 2017 for the year ended 31 December 2016.

	Year ended 31 December 2018	Year ended 31 December 2017	% change
Total spend on pay[1] (US$'000)	**86,942**	80,861	8%
Dividends paid to shareholders[2] (US$'000)	**36,156**	31,110	16%

Notes to table:

1. Total spend on pay includes total staff costs per Group's IFRS consolidated financial statements and is converted into US$ using average US$/GEL exchange rate for 2018 and 2017 respectively.
2. Dividend paid to shareholders are gross amounts converted into US$ using official exchange rate prevailing at the date of payment of the dividends, GEL 2.4579 and GEL 2.4047 for 2018 and 2017 respectively. The dividend amount includes both cash and scrip dividend.

9. POLICY IMPLEMENTATION IN 2019

Remuneration policy for executive directors

The new Remuneration Policy was developed with support of external consultants and KPMG and was approved by the shareholders on 21 May 2018 at the 2018 Annual General Meeting (AGM). The Policy is applicable starting from 1 January 2019 until the end of 2021

Non-executive director compensation

See further details below on changes to the non-executive directors' compensation. These are in line with the policy approved by shareholders at the 2017 AGM.

Statement of implementation

In 2019, the Remuneration Committee intends to continue to provide remuneration in accordance with the policy tables set forth below as approved by shareholders at the 2018 AGM. Fees and salaries may be adjusted but in all cases will not exceed the maximums stated in the appropriate policy table as approved by shareholders at the 2018 AGM. New targets will be set for the deferred share bonuses. The appropriate level of awards to be granted in 2019 is assessed by the Remuneration Committee but in all cases will remain within the maximums stated in the appropriate policy table as approved by shareholders at the 2018 AGM.

From January 2019 the following will apply:

Executive directors

Base salary (cash and deferred shares)	The cash and deferred share salaries are set out in the executive directors' service contracts. The Remuneration Committee reserves the right to agree changes to the base salary with the executive directors but no change will exceed the maximum stated in the policy approved by shareholders at the 2018 AGM. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.
Annual bonus	**Performance measures and weightings:** Performance measures for 2019 are summarized below: › Corporate financial KPIs that are comprised of return on equity, cost to income, cost of risk and net interest margin › Corporate non-financial KPIs that relate to strategic HR, agile transformation, customer experience and international expansion › Personal KPIs that include leadership skills in the case of the CEO and in the case of the CFO, include leadership skills, IR function specific KPIs, treasury operations targets and targets related to international expansion in Uzbekistan

The corresponding weightings[1] for 2019 are set as follows:

	CEO	CFO
Financial measures	50%	37%
Non-financial measures	40%	33%
Personal KPIs	10%	30%
Total	**100%**	**100%**

Performance targets:
Specific performance targets are considered commercially sensitive as they will give our competitors information about our budget and strategy. The targets will be disclosed in the Group's 2019 annual report.

Long term incentive plan (LTIP)

Performance conditions and corresponding weightings for CEO and CFO for 2019 will include:

	KPI weight
Total shareholder return (TSR) for a period of 3 years (2019-2021)	40%
Average ROE for 3 years (2019-2021)	40%
Loan market share at the end of 2021	20%

Performance targets:
Specific performance targets are considered commercially sensitive as they will give our competitors information about our budget and strategy. The targets will be disclosed in the Group's 2019 annual report.

Non-Executive Directors

Fees	The fees paid to the non-executive directors will be within the Policy approved by shareholders at the 2017 AGM. The Remuneration Committee has decided to revise the compensation for the non-executive directors starting from 4 April 2019. Full details of the changes will be included in next year's annual report, but these include: › The Chairman's compensation will decrease from US$ 950,000 to 450,000 › Deputy Chairman's compensation will decrease from US$ 800,000 to 400,000 This change is to reflect the recent restructuring of the board as the Chairman and Deputy Chairman have left the Board of JSC TBC Bank but continue as the Chairman and Deputy Chairman of TBC Bank Group PLC (please see further information on page 68). The compensation of Nikoloz Enukidze, Nicholas Haag, Maria Luisa Cicognani and Tsira Kemularia is increasing by US$ 8,750, US$ 19,000, US$ 19,000 and US$ 32,875 respectively, to reflect their increased duties.

1 The weightings of financial and non-financial KPIs have been changed slightly compared to 2018 in order to better align them with the refreshed strategy

10. DIRECTORS' REMUNERATION POLICY

This section describes the new Remuneration Policy for executive directors, which came into force on 1 January 2019 and will apply for 3 years until the end of 2021. This Policy was approved on 21 May 2018 at the 2018 AGM meeting.

The full Policy is given in 2017 Annual Report, which is available at our website at www.tbcbankgroup.com.

The summary of the Policy is given in section 10.1.

This year we have made the following amendments to the Policy in relation to shareholding requirements:

Shareholder guidelines
As reported in the 2017 Remuneration Report, the Remuneration Committee has introduced a minimum shareholding requirement. Executive directors naturally build up a significant holding of shares in the Company. In order to encourage this and set a standard position, the Company is introducing a minimum shareholding requirement of 200% base salary (the "Minimum Shareholding Requirement"). There is no set time during which the Minimum Shareholding Requirement must be met, but until it is met, executive directors are expected to hold shares acquired under this Policy. Any deferred shares will count towards the Minimum Shareholding Requirement on a net of tax basis.

Once the Minimum Shareholding Requirement has been met, the executive directors must maintain the Minimum Shareholding Requirement for the duration of their employment with the Group. Unless otherwise agreed by the Remuneration Committee, the Minimum Shareholding Requirement will also apply for two years post employment at a level equal to the lower of:

- 50% of the Minimum Shareholding Requirement immediately prior to departure; or
- the Executive Director's actual shareholding on departure.

Deferred shares paid in relation to salary and annual bonus and any vested awards from the LTIP shall count towards the Minimum Shareholding Requirement. Unvested awards from the LTIP will not be counted.

Both of the Executive Directors have met the Minimum Shareholding Requirement.

Committee discretion

The Policy gives discretion to the Remuneration Committee to override the formulaic outcomes of the performance assessment in relation to annual bonus and LTIP.

10.1 Summary of Remuneration policy for Chief Executive Director and Chief Financial Director
Approved by the shareholders on 21 May 2018 at the 2018 Annual General Meeting (AGM). The Policy is applicable starting from 1 January 2019 until the end of 2021.

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Fixed Pay				
Base Salary – in the form of cash and deferred shares	Salaries are determined based on market practice and provide each executive director with a competitive fixed income to efficiently retain and reward the director, based upon each director's roles and responsibilities within the Group and relative skills and experience. Cash salary The cash part of the salary is aimed to provide fixed cash remuneration to reflect the complexity of the Group. Deferred share salary Part of the salary is given in the form of shares and despite being salary is still intended to promote the long-term success of the Group by closely aligning executive directors' and shareholders' interests. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the Remuneration Committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition, the shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.	Both the cash and deferred share salaries are 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 by the Remuneration Committee based on responsibilities and market data and are set out in an executive director's service contract with the Group. An executive director may be paid separate salaries for roles and responsibilities at different entities within the TBC Group as set out in a separate service contract with any relevant entity. 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).	Cash salary The maximum annual cash salary for Chief Executive Director is US$ 453,994. The maximum annual cash salary for Chief Financial Director is US$ 227,004. Deferred Share Salary The maximum annual value for the deferred share salary for the Chief Executive Director is US$ 510,000. The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. However, the maximum is fixed by reference to a cash amount. The maximum annual value for the deferred share salary for the Chief Financial Director is US$ 255,000. The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.. However, the maximum is fixed by reference to a cash amount. The bank pays income tax[1] and other employee-related taxes related to base salary, however, taxes are included in the maximum amounts. These numbers include the salaries received from both JSC TBC Bank and TBC Bank Group PLC. The executives do not receive any additional salary from other Group entities. Salaries are reviewed and may be adjusted annually by the Remuneration Committee based on the available market data on compensation among a peer group sample selected by the Remuneration Committee. The Remuneration Committee must ensure that the total reward potentially available is not excessive from the standpoint of relevant employment data. Any changes to salaries must be recommended by the Remuneration Committee and approved by the Board.	Not performance based.

1 The proposed structure of paying income tax for the executives is due to the Georgian tax code, which requires a company to pay income tax on any benefit paid to the executives (and does not allow for alternative arrangements). However, the numbers disclosed include such income tax estimates

10. DIRECTORS' REMUNERATION POLICY CONTINUED

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Variable pay				
Annual bonus in the form of deferred shares	To provide a strong motivational tool to achieve the annual KPIs and to provide rewards to the extent those KPIs are achieved. The annual KPIs are chosen to align our executive directors' interests with the short terms strategic objectives of the Group The annual bonus 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 work is performed) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition the shares are registered in the trustees name as the nominee for the participants and the participants are entitled to receive dividends.	KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year (see more detail at 10.3(b) of the full Remuneration Policy). To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs (but not necessarily their specific weightings) will be disclosed in the annual report published in the performance year. However, the precise targets are commercially sensitive and will be disclosed retrospectively. The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates. 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 has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).	The maximum value of the annual bonus for the Chief Executive Director, under the annual short-term incentive arrangements, is US$ 1,301,760 (135% of fixed salary). The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. However, the maximum is fixed by reference to a cash amount. The maximum value of the annual bonus for the Chief Financial Officer, under the annual short-term incentive arrangements, is US$ 650,880 (135% of fixed salary). The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. However, the maximum is fixed by reference to a cash amount. The bank pays income tax[1] and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.	The KPIs consist of corporate and individual performance measures. Corporate KPIs include financial measures, and non-financial measures with long term focus. Individual performance measures may include individual strategic objectives which vary per person. The performance period is one year. The Remuneration Committee may decide to make no awards where KPIs have not been met.

1 The proposed structure of paying income tax for the executives is due to the Georgian tax code, which requires a company to pay income tax on any benefit paid to the executives (and does not allow for alternative arrangements). However, the numbers disclosed include such income tax estimates
2 This element has been added to the remuneration policy to extend the long term outlook of the Policy beyond, but in addition to, the annual bonus plan

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Long Term Incentive Plan (LTIP)	To provide a strong motivational tool to achieve long-term performance conditions and to provide rewards to the extent those performance conditions are achieved[2]. Performance conditions are chosen to align our executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet performance conditions over the 3 year performance period. Share are usually delivered during the first quarter of the fourth year (i.e. the year after the performance period ends) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to 2 year holding period and continued employment requirements. Awards may benefit from dividend equivalents. No dividend equivalents will be paid on any awards (or part thereof) that lapse on or before vesting.	The awards may be granted in the form of conditional share awards, options or restricted share awards. Performance Conditions are set by the Remuneration Committee for a period of 3 years. (see more detail at 10.3(c) of the full Remuneration Policy). The Remuneration Committee determines the level of award at the end of the performance period, based on the extent to which the performance conditions have been met. The performance conditions and respective targets will be disclosed in the annual report published in the year of the award. The Remuneration Committee may also adjust performance conditions during the performance period to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates. Awards are subject to the Group's malus and clawback policies until three years after the shares are delivered. If at any time after making the award the award holder deliberately mislead the Company or the Bank in relation to the financial performance, there is a material misstatement (or material error) in the financial statements of the Company or the Bank, the award holder's unit has suffered a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that caused material harm to the Company's or the Bank's reputation or there is misconduct on the part of the award holder that caused failure of the risk management resulting in a material loss to the Company or the Bank, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) and to clawback any amount that has already been paid. For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans. These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares. The plan will be administered by the Remuneration Committee.	The maximum value of the award for the Chief Executive Director in any given year, under the long-term incentive arrangements, to be awarded is US$ 1,554,240 (161% of fixed salary). The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The maximum value of the award for the Chief Financial Officer in any given year, under the long-term incentive arrangements, to be awarded is US$ 777,120 (161% of fixed salary). The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The bank pays income tax[1] and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.	The performance conditions for the award are set by the Committee each year. The Remuneration Committee's current view is that performance conditions will include: • a measure of efficiency (e.g. ROE) • a measure of share price performance (e.g. EPS/TSR) • a measure of customer experience Weightings of these measures may vary year-on-year. The performance period is three year.

10. DIRECTORS' REMUNERATION POLICY CONTINUED

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Pension	To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain executive directors	The Group may introduce a defined contribution pension scheme taking into account any pension reform or practice in Georgia. The operation of the pension would be considered by the Remuneration Committee fairly and reasonably and with regard to best market practice. If introduced, there will be no provision for the clawback or withholding of pension payments.	The maximum employer contribution will not exceed 3% of annual salary.	Not performance based.
Benefits	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent.	Benefits available to executive directors consist of insurance (such as medical, life and disability insurance), physical examinations, tax gross ups[1], directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. Executive directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts. A tax equalisation payment may be paid to an executive director if any part of his remuneration becomes subject to double taxation.	The policy is framed by the nature of the benefits that the Remuneration Committee is willing to provide to executive directors. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the executive director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant.	Not performance based.

1 According to Georgian tax code, the company is responsible for paying income tax for the participants. As about 95% of the remuneration of CEO and CFO is subject to Georgian tax regulations, the Company pays respective taxes on the relevant portion

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11. REMUNERATION THROUGHOUT THE GROUP

Remuneration of other top management members of JSC TBC Bank is similar to that of the executive members of the Company. Other senior and middle management across the Group including material risk takers as well as some other key employees receive their entire salary in cash and are also eligible to cash and share bonus compensation. The share bonuses granted are subject to 2-3 years of continued employment condition and holding period gradually lifting the conditions.

All other employees within the Group receive cash salaries and may be eligible to receive cash bonuses. Executive director and employee pay is studied and determined through the use of appropriate market data usually with input from a compensation consultant.

All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on a voluntary basis.

12. POLICY TABLE: NON-EXECUTIVE DIRECTORS

In the same way as the executives, the non-executive directors receive their compensation both from the Company and the main subsidiary, JSC TBC Bank, proportionate to the time spent working on the respective entity's Boards and committees. Starting from 1 January 2018 until the end of 2021, the compensation for the non-executive directors is as follows:

Component	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	To provide appropriate compensation for a non-executive director of the Group, sufficient to attract, retain and motivate high-calibre individuals with the relevant skills, knowledge and experience to further the Group's strategy. In addition, for the chairman and deputy chairman, the Group's remuneration policy reflects the importance and unique role each of them has within the Group.	The Group pays fees to non-executive directors. The fees are determined by the Remuneration Committee and the current level of fees include the following: • The annual fees for the chairman are US$950,000 • The annual fees for the deputy chairman are US$800,000 • The annual fees for acting as a non-executive director (other than for chairman and deputy chairman) range between US$84,375 - US$94,553 • The annual fees for acting as Senior Independent Director, in addition to the fees received for acting as a non-executive director are US$20,000 • The annual fees for relevant committee memberships range between US$10,882 - US$11,250 • The annual fees for committee chairman positions range between US$27,206 - US$28,125 The Remuneration Committee reserves the right to structure the non-executive directors' fees differently in its absolute discretion. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy. Fees are generally paid monthly in cash. However, the Remuneration Committee reserves the right to pay the fees on a different basis. Fees are periodically reviewed and adjusted by the Remuneration Committee, having regard to external comparators such as the Group's peer group, the chair or committee roles and responsibilities and other market factors.	The maximum annual fees that may be paid to the chairman and deputy chairman are US$950,000 and US$800,000 respectively. The maximum annual fee paid to the Senior Independent Director is US$175,000. The maximum annual fee paid for acting as a non-executive director (other than for chairman, deputy chairman and Senior Independent Director) is US$165,000.

12. POLICY TABLE: NON-EXECUTIVE DIRECTORS CONTINUED

Component	Purpose and Link to Strategy	Operation	Maximum Opportunity
Expenses	To compensate non-executive directors for expenses incurred in connection with the performance of their non-executive director duties and to ensure the Group has the appropriate non-executive director input as and when required.	The Group may reimburse non-executive directors for their expenses incurred in connection with the performance of their duties including attending Board and committee meetings (such as, for example, travel, accommodation, other subsistence expenses and personal security arrangements), Board/committee dinners and functions, Board training sessions, director's and officers' liability insurance, advice in respect of professional duties and corporate hospitality events (or the Group may pay such expenses directly). For the Chairman and Deputy Chairman, JSC TBC Bank provides insurance, company car service, and a security service for the Chairman only which is a legacy arrangement and widely establish practice in Georgian market.	The policy is framed by the nature of the expenses that the Remuneration Committee is willing to provide to non-executive directors. The maximum amount payable depends on the cost of providing such expenses in the location at which the non-executive director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely.

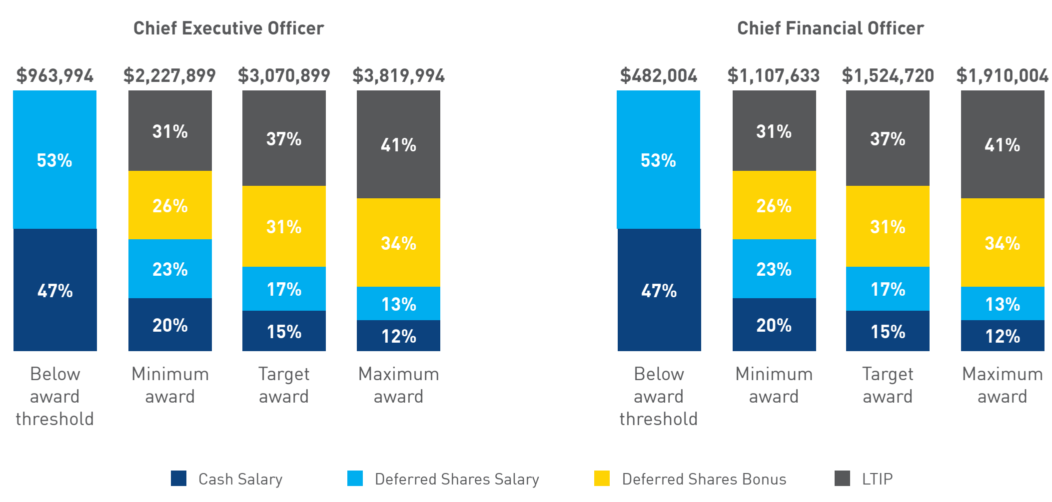
12.1 Non-executive directors

Since non-executive directors are not employees, they do not receive compensation or benefits reserved only for employees such as company paid/subsidised insurance or paid holiday. The non-executive directors are not eligible for performance-based share awards. They do not currently receive pension or other equivalent benefits except for the chairman and deputy chairman who are compensated for and provided with car service expenses. Awards with performance conditions are not part of the non-executive remuneration package as we do not wish the non-executive directors to be driven by short-term Group performance so as to maintain their independence as advisors to the Group.

The non-executive directors are entitled to broad indemnification by the Group pursuant to a deed of indemnity entered into with each director and are covered by the Group's Directors & Officers' Liability Insurance Policy.

13. ILLUSTRATION OF APPLICATION OF THE REMUNERATION POLICY

The following graphs illustrate the levels of remuneration that each executive director could earn in 2019 under the new Policy.



Notes to table:

1. Directors' compensation consists of cash salary, deferred share salary, annual bonus and LTIP. Cash salary and deferred share salary are the same in each performance scenario. No pension contributions have been included in the performance scenarios as we assume no pension contributions will be paid.
2. The "below bonus threshold" chart reflects a scenario where KPI achievement falls below 60% and so no bonuses would be awarded.
3. If KPIs are fulfilled at minimum, on target or maximum ranges the evaluation and subsequent bonus award will be 60%, 100% and 135-137% respectively.

The maximum remuneration receivable for CEO and CFO in case of share price appreciation of 50% during the relevant performance period under LTIP would be US$ 2,331,360 and US$ 1,165,680 respectively. The calculation is based on the number of share granted to CEO and CFO under LTIP of 104,172 and 52,086 respectively using the average share price (GBP 14.92) during the 10-day period after the preliminary annual results of 2018 were issued on 21 February 2019.

14. SERVICE CONTRACTS

The service contracts of Vakhtang Butskhrikidze and Giorgi Shagidze who serve as CEO and CFO respectively and the letters of appointment of each non-executive director are kept at TBC Bank head office a the following address: 7 Marjanishvili street, Tbilisi, 0102, Georgia.

15. CONSIDERATION OF EMPLOYMENT CONDITIONS WITHIN THE GROUP

In accordance with prevailing commercial practice, the Remuneration Committee evaluates the compensation and conditions of employees of the Group in determining the Policy with respect to executive directors. The Remuneration Committee may engage external advisors to assist in analysing remuneration in the Group. Each year the Remuneration Committee approves the overall percentage pay out for compensation and material changes to employee benefit plans. Consistent with practice in the industry in which the Group operates, it is not the Group's policy to consult with staff on the pay of its directors.

16. MINOR CHANGES

The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Policy for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation.

CHAIRMAN'S LETTER

Dear shareholders,

I am pleased to present the Audit Committee report for the Group.

Nicholas Haag
Chairman of the Audit Committee
2 April 2019

COMMITTEE STRUCTURE AND ROLE

Since the Company's incorporation in 2016, there have been two separate but inter-connected audit committees in the Group for each of the Company and the Bank, which have common membership and perform a joint function within the Group. In practice, we consider both audit committees as complementary and somewhat fungible with both of them being focused on optimising governance of the Group as a whole, especially because the Bank represents 97% of the Group's total assets. Nevertheless, we continue to ensure that particular resolutions are passed by the appropriate audit committee with as little duplication as possible, while making sure that there is seamless co-operation between the two committees to avoid any gaps in overall scrutiny. For the purpose of this report, we refer to the two committees collectively as "the Audit Committee".

COORDINATION OF THE AUDIT COMMITTEE

The Audit Committee remains primarily responsible for overseeing the financial reporting process, including the appointment of external auditors and the implementation of accounting policies and practices. This serves to ensure the integrity, accuracy and full disclosure of the Group's financial condition and assists the Board with its assessment of the 'going concern' status of the Company and the provision of its Viability Statement. The Audit Committee has given the Board of the Company our view that it is appropriate to adopt the going concern basis of accounting in the preparation of our financial statements.

In relation to the risk assessment function, the Group has a separate Board-level committee responsible for risk, ethics and compliance, the RECC, which is chaired by Nikoloz Enukidze, who is also a member of the Audit Committee. Nicholas Haag, the Chairman of the Audit Committee, is, in turn, a member of the RECC. Please see pages 50 to 69 for a description of the Group's risk management framework and pages 133 to 135 for the RECC's report.

The Audit Committee reviews relevant content in the Annual Report, interim statements and other finance-related information and press releases. The Audit Committee also supervises the Bank's systems of internal control with regard to its financial reporting and certain operational risks, such as supporting internal investigations into any identified control weaknesses or fraud-related events. The Audit Committee evaluates Management's competence in all these areas, in order to ensure that Management takes any necessary corrective steps in a timely manner, so that any vulnerabilities are addressed.

During the course of 2018, the Committee continued to coordinate closely with other board committees. With regard to the Risk Committee, we jointly reviewed the areas of overlap between the two committees (particularly in areas such as operational risk, credit risk modelling and assessment of the Bank's culture in relation to risk and ethics) in order to avoid any duplication of functions and to ensure the seamless and comprehensive oversight of these vital areas. In a similar manner, the Audit Committee worked closely with the Remuneration Committee to confirm that there are no improper incentives which could weaken controls or may lead to management bias, for example in areas such as the provision of loans and valuations.

The lines of communication with Management remain open with constructive, candid and continual dialogue taking place throughout the year. The Audit Committee draws on sufficient administrative resources, benefiting in particular in 2018 from the strengthening of the Board Secretariat and Company Secretary functions. The Audit Committee is satisfied that it receives sufficient, reliable and timely information from Management and from both our internal and external Auditors.

COMMITTEE COMPOSITION, COMPETENCE AND INDEPENDENCE

As of 2 April 2019, the Audit Committee of the Company comprises four non-executive directors. In September 2018 we welcomed two new Board members onto the Audit Committee, Maria Luisa Cicognani and Tsira Kemularia who now join Nikoloz Enukidze and Nicholas Haag. Maria and Tsira bring extensive prior experience and knowledge, obtained at major international institutions, to the Audit Committee. Tsira has particular expertise in the fields of treasury and internal control. Maria Luisa brings with her extensive senior listed company experience at chairperson level both from within EU and emerging market banks. I wish to express my thanks to retiring Committee members, Stephan Wilcke, Stefano Marsaglia and Eric Rajendra for their past contribution to our team.

All non-executive directors have been deemed as independent under the Code, which applies to companies listed on the premium segment of the London Stock Exchange. In addition, members of the Audit Committee continue to satisfy the director independence criteria, as defined by the Georgian Corporate Governance Code for Commercial Banks. We are confident that all members continue to exercise fully independent judgement in all matters related to the Audit Committee's functions.

All members of the Audit Committee (see biographies on pages 120-124) are financially literate and possess a detailed understanding of the financial services sector, with backgrounds primarily in the fields of banking (both EU and emerging and frontier markets) across several continents. With the addition of Tsira Kemularia, the Audit Committee will also now benefit from the presence of a member who possesses experience with a major global oil corporation. This will serve to broaden the range of perspectives the Audit Committee has to draw upon. The majority of our members have served on, or acted as chair of, the audit and risk committees of other comparable institutions. This has given them the commercial and financial experience required to guide and challenge management and both our internal and external auditors.

The Board has confirmed its belief that the Audit Committee has the recent and relevant expertise to operate effectively and recognises that it draws upon expert external resources, as and when required. Only one member of the Committee has a substantially full time executive role in another organisation. All other members devote their time to other boards of a supervisory nature and ensure that they have sufficient time to dedicate themselves to their responsibilities with the Company. Appropriate training is available to members of the Audit Committee. Recent examples of such training have included updates by external specialists on pending new accounting regulations, the evolving interpretation of recently-introduced accounting standards (IFRS9, for example) and relevant developments in corporate governance (the 2018 updates to UK Corporate Governance Code, for example).

We continue to review, in conjunction with our Corporate Governance and Nominations Committee, suitable medium-term succession plans for Audit Committee membership. Our priority, as ever, is to select prospective members with sufficient technical experience, for example in the audit industry.

ATTENDANCE AT COMMITTEE

The attendance level at Audit Committee meetings for the Company during 2018 was 98%. The majority of the meetings took place in London and were either physical or telephonic meetings. With regard to telephonic meetings, the majority of the attendees participated from locations within the UK, where 4 of the 5 members were resident. Attendance at the Bank's Audit Committee meetings was also 98%. A higher proportion of these meetings were held in Georgia, as the Committee remains keen to maintain a suitable level of interaction with a range of on-the-ground staff, particularly those operating in finance and control roles. Therefore, we believe that this is most practically undertaken by hosting meetings in the Bank's home country. The attendances of members at the Audit Committee meetings during 2018 are set out in the Directors' Governance statement on page 111.

COMMITTEE MEETING FORMAT AND FREQUENCY OF MEETINGS

In the course of 2018 there were 9 formal meetings of the Audit Committee of the Company and 11 for the Bank's Audit Committee. The minutes of each of these meetings were recorded. In addition, committee members remain in communication with one another by telephone or email regarding various matters relating to Audit Committee work, on an almost weekly basis.

At each formal meeting, the Audit Committee met with senior members of Management, and Internal and External Audit. We have in place a standing invitation for the CEO, CFO and CRO to attend our Audit Committee meetings. Our External Auditors, PwC, are invited to participate in and contribute to meetings on all topics where there is no direct conflict of interest (for example when discussing reappointment of the auditors, their performance, independence or fees).

The Audit Committee of the Company met at least twice either during or around each quarter of 2018, broadly in accordance with our quarterly financial reporting cycle. At least one such quarterly meeting coincided with the timing of Board meetings of the Company, with the Audit Committee meeting taking place prior to that of the Board. This format enabled us to formally present our summary findings to the Board. These reports, in certain instances, highlighted scope for process improvement and invited responses from Management. This led to the implementation of follow-up actions, which were formally minuted by the Board.

AUDIT COMMITTEE EFFECTIVENESS

The Company's Audit Committee's Terms of Reference were reviewed and approved with no changes by the Committee on 28 December 2018. The document is available on TBC's website at www.tbcbankgroup.com. The Audit Committee Charter of the Bank was reviewed and approved by the Audit Committee of the Bank in the same month.

In March, the Company's Audit Committee conducted an annual Effectiveness Self-Review using an extensive and customised questionnaire, drawing on an international best practice questionnaire devised by an external firm. In addition, the entire Board included in its wider Self-Assessment certain questions relating to the efficacy of the Audit Committee, amongst other committees. Both the Audit Committee and the Board concluded that the former is constituted properly, operates effectively and carries out all its responsibilities as laid out in its Terms of Reference and the Charter. Furthermore, a wider external review of Board effectiveness was conducted by a London-based specialist firm during the year and made certain recommendations in relation to possible incremental improvements (mostly concerning the style and structure of meetings) for the Audit Committee which are being progressively implemented.

QUALITY OF FINANCIAL STATEMENTS

The Audit Committee is conscious that the Group is a premium listed company on the London Stock Exchange and the largest financial services company in the Georgian market, which entails both legal and social responsibilities to shareholders and, importantly, other stakeholders also. Our business is overwhelmingly tied to the performance of the Georgian economy. In 2018, Georgia delivered a strong real GDP growth of 4.8%[1], an improvement on the prior year's already very healthy growth trajectory, with some modest slowing in the second half of the year. Momentum in the Georgian economy is expected to be restored in 2019, with the National Bank of Georgia and international organisations estimating GDP growth in the range of 4.5-5.0%. Nevertheless, the regional picture with which the economy of Georgia is interconnected and on which it is partially dependent remains somewhat volatile, with certain regional economies making progress, whilst others remain distressed. The risk of a sudden downturn will always be present, due to changing local, regional or global dynamics. As a result the Audit Committee, in a similar vein as the RECC, closely tracks relevant economic data for 'warning signs'.

We are equally vigilant in respect of any evidence of complacency, which could in turn lead to a risk of slippage in the high standards we both require and expect of ourselves. The Committee will seek to ensure that any unexpected deterioration in the Georgian economy will trigger extra vigilance on our part in relation to financial controls and reporting.

The Committee remains as focused as ever on ensuring the integrity of our financial releases and internal records. The Committee pre-vets all audited and non-audited financial releases, before making recommendations to the Board that they approve these. The Committee holds formal discussions with Management, in particular the CFO (and his finance team), about each of these releases, typically with a multi-stage drafting, review and approval process. We communicate with the External Auditor telephonically and in writing before approving releases prepared on an annual or semiannual basis. We also monitor the financial data published on the Company's website to ensure its accuracy and clarity.

We have noted the FRC's comments regarding the wider trend for lower level errors that may be creeping into companies' financial statements and detracting from the integrity of their report and accounts. We observe that this has not been the experience for either the Company or the Bank.

The Committee is conscious of the recommendations of European authorities and the FRC as regards improving the reporting of alternate performance measures ("APMs"). We track carefully what APMs the Company uses in its financial reporting and apply guidelines in this regard from the European Securities and Markets Authority (ESMA). The Company discloses a limited number of APMs, such as adjusted cost to income ratio, risk-adjusted net interest margins and various other return metrics. We consider that most of these (for example return metrics pre- as well as post-provision) are in common usage, are consistently used in context and are meaningful additions to our reporting designed to clarify rather than obfuscate our financial position and do not detract in any way from our core IFRS numbers. Several APMs that were previously used in relation to various acquisitions (notably Bank Republic) were inherently time-limited and have been discontinued.

1 Based on initial estimates by Geostat

EXTERNAL AUDIT TEAM, COORDINATION AND PLANNING

The Audit Committee collectively believes that PwC made reliable and effective judgements at all stages, identified and focused on areas of greatest risk and convincingly articulated their testing strategy in 2018. We are satisfied that the markets and models to which valuations are marked have liquidity and transaction profiles that are adequate and sufficiently robust. We believe that all off balance sheet and contingent liabilities have been sufficiently identified and disclosed in sufficient detail.

The Committee makes recommendations on the appointment (or potentially removal) and compensation of External Auditors and seeks to maximise the value of the external audit relationship. We assess and approve audit scope and frequency, make recommendations to auditors on areas for particular focus and receive and review key external audit planning and progress reports.

The Audit Committee of the Company held multiple audit planning meetings with PwC in 2018 both in London and in Tbilisi, commencing this process in the middle of the year. The Audit Committee had the opportunity (without involvement of Management) to highlight areas it wished the External Auditor to focus on, flagging relevant concerns and trends and discussing the appropriate audit response. As noted, the Committee has a policy of regular quarterly face to face discussions with PwC as part of our formal meeting agendas, proactively and mutually addressing any material audit or control issues. In addition, the Chairman, and often other members of the Committee, had a number of more informal (i.e. not minuted) meetings with PwC at frequent intervals throughout the year. These meetings combined mutual audit planning/execution updates with some element of briefing or training to Audit Committee members on the latest developments in accounting regulations and corporate governance. PwC often shared with us experiences of best practice across their full international audit spectrum and this provided both parties with the opportunity for open dialogue. The Chairman and majority of Committee members are based in the UK and enjoy ready access to the audit team there.

Given the holding company structure of the Group, both the London and Tbilisi practices of PwC are fully involved in the external audit process for the Group. In the opinion of the Audit Committee, this 'double coverage' works well and provides some extra reassurance to us in terms of scrutiny. The group engagement partner, Jeremy Foster is fully aware of his overall responsibility and ultimate sign-off duties, and the cooperation and communication between the two practices seems to be well coordinated with a common audit methodology and drawing as required on wider international subject matter experts of the firm. The London team coordinates the entire audit for the Company with audit instructions issued by London and systems in place for the monitoring of PwC's Tbilisi's work by PwC London, both by way of in-person visits and remotely. Both Jeremy and Agnieszka Accordi (see below) have made multiple trips to Tbilisi over the course of 2018.

In our view, Jeremy has exhibited not only strong technical skills but also a good understanding of our business, the country and sector and a willingness to challenge the Audit Committee and Management. In 2017 we welcomed Agnieszka as the new PwC audit partner for the Bank's audit and she has continued to develop a deep understanding of the Bank and its audit issues, as well as bringing to us the benefit of experience from other geographic markets. Other members of the audit team in both London and Tbilisi remain very largely unchanged, to ensure good audit team continuity knowledge.

Jeremy Foster (appointed as lead engagement partner since 2016), is planning to retire from PwC during 2019 and we have agreed with PwC that his role from 5 April 2019 will be taken by another UK-based senior audit partner, Allan McGrath. Allan has deep experience in auditing UK-registered financial services companies at FTSE350 level. PwC are taking steps to manage a seamless transition and as a Committee we look forward to working with Allan with whom we have already held a number of introductory meetings. The Committee wishes to thank Jeremy for his work with the Company since it created its PLC holding company structure and the locus of Group accounting engagement shifted more to the UK.

The audit coverage and the judgements about underlying audit materiality have been explained to us satisfactorily. We agreed with PwC an overall consolidated Group audit materiality sum of GEL 25.5m and a slightly lower number GEL 24.2m for the Bank, a marginal increase on 2017 reflecting the further expansion in Group size and profitability. We continue to believe that pre-tax profitability 5% is a suitable and meaningful materiality basis for the Company given the relatively stable performance of our profitability metric over the years and have agreed that materiality for the Bank should be 95% of that for the Group, the Bank representing around 97% in total assets and around 96% in profitability.

EXTERNAL AUDIT AND AUDIT COMMITTEE AREAS OF FOCUS

We have reviewed, in conjunction with in-house Finance, Risk and Internal Audit teams, all the data and narrative comment and concluded that the Annual Report and full year financial statements taken as a whole give a complete, true, fair, balanced and understandable view of the Company's financial position and are consistent with the Committee's understanding of the facts and provide the information necessary for shareholders and other stakeholders to assess the financial condition of the Group. There have been no significant or enduring points of difference of opinion between the Committee and PwC or between the Committee and the Board or Management.

Provisions and impairments
We have, as always, assessed the reasonableness and appropriateness of all critical accounting estimates and judgements in applying accounting policies and have been clear with regard to the differences between what constitutes such estimates and judgements. In the numerous planning meetings held between the Audit Committee and PwC, there were a number of areas of focus. Key accounting judgements and significant estimates were identified and have been addressed with appropriate resources, including the necessary specialist involvement. The Company has enhanced its financial reporting to comply with new corporate reporting requirements. We agreed with PwC that the two most significant audit-related risks were management overriding of controls and the provisions for impairment of loans and guarantees. Other risks in terms of areas of judgement that we asked PwC to focus on included accruals for litigation and claims, collateral values supporting our loan book, net realisable value of repossessed collateral, fair value of securities and derivatives, share based payments and impairment of goodwill.

In terms of loan provisions, PwC has worked independently, reporting to the Audit Committee, verifying the current provisioning methodology used by the Bank, challenging these assumptions and examining individual mostly corporate loan exposures on the non-performing and 'watch' lists and confirming the completeness of this watch list which we note tends to be stable in composition without frequent additions that would indicate a deteriorating book or poor 'capture' of problem loans. We have also sought to use our judgement to back-test the reliability of the Bank's previous impairment assumptions which we have found to be generally conservative compared to observed reality.

FY 2018 as the first full year adopting IFRS 9
Following the formal adoption of the standard from the beginning of 2018, IFRS 9 was clearly an audit priority for the Audit Committee this year. As noted, this was almost by definition an area of "elevated risk" in the audit given that the implications for the Bank are significant, as is the case for most European banks, due to the increased number of management financial reporting judgments and surrounding disclosure obligations. We asked PwC to conduct a substantive test of our IFRS 9 methodologies including a critical assessment of management experts' backtesting and model effectiveness in predicting expected credit losses and challenging overlays and post-model adjustments. Assumptions for determining values have been scrutinised and challenged by us. It was a reassurance that PwC concluded that the Bank's IFRS 9 models are not significantly sensitive to probability-weighted forward looking information. Clearly there are areas of IFRS 9, including forward-looking economic assumptions, which still remain unobservable or judgemental and cannot be conclusively proven by back-testing but we believe that PwC have adequately responded to this risk in terms of assessing their reliance on our controls and calibrating their audit accordingly.

The Audit Committee, benefiting from work streams led by the RECC, continues to monitor on a regular basis individually-assessed loans on the Bank's watch list but also collectively-assessed loans that are less than ninety days past due (and not yet classified as impaired) to calibrate any deterioration of credit quality that may feed through into impairments. We have not observed any trend deterioration other than in the higher-yielding non-mortgage consumer loan portfolio which was fully anticipated as part of the lending business model.

Evidently, one of the biggest factors impacting and also reflecting the Georgian economy is the stability of the local Lari currency. The Lari has been prone to periods of volatility again in 2018, even though it was to a lesser extent than during previous years, partly due to seasonal factors. However depreciation against the US dollar over the course of the year was just 3.3%. The Committee in reviewing provisioning levels has sought and received detailed data on such currency mismatches and the RECC has performed a deep-dive into this risk issue. We note that, in previous periods of national currency volatility, our assumptions regarding the impact of this on the quality of our loan book have proven reassuringly cautious on a back-tested basis. We note that the welcome "larization" policy of the Georgian government has and will continue to diminish the credit and financial reporting risk arising.

FY 2018 as the first year fully adopting IFRS 15
In addition to IFRS 9, the Audit Committee has been focused on the correct adoption of and transition towards certain new accounting standards. The new IFRS 15 standard (effective from January 2018) has replaced existing IFRS revenue recognition guidance. This change resulted in no material impact, since there were no material changes to the revenue recognition process of applicable revenue streams, as the Group had already been recognizing revenue over period of time, in line with the fulfilment of the respective performance obligation.

Implementation of IFRS 16 as of 1/1/2019
IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and became effective as of January 2019. IFRS 16 will change the reporting standard of leasing transactions for lessees, eliminating the classification of leases as either operating or finance leases as required by IAS17 and introducing a single accounting model. We have finalised an impact assessment and the Group will recognise a 'right of use' asset against a corresponding lease liability on 1 January 2019. The Committee discussed this matter with the CFO and with PwC and is satisfied that this represents a suitable implementation of the new standard.

Management's ability to override controls
In terms of the significant risk of management override of controls, we note that this is a priority risk factor on all audit engagements, especially in a banking context, since management is responsible for the design and operation

of systems to prevent and detect fraud and thus in a unique position to manipulate accounting records. In response PwC conducted required testing of controls backed up by substantive testing of specific items.

In 2018, the Bank conducted external tax audits of various subsidiaries in respect of the 2017 tax year. The Audit Committee also supervised an internal review of the organisation of tax workstreams in the Bank, including tax strategy, tax risk and transfer pricing policy.

Deferred tax

Another focus area of the Audit Committee has been the treatment of deferred tax balances under Georgian changes in tax regulation. In 2016, the Georgian government enacted changes to incentivise the reinvestment of corporate profits. The new code will impact the recognition and measurement principles of the Group's income tax and also affects the Group's deferred income tax assets/liabilities. This law was due to come into effect for the banking sector from January 2019 but a later amendment postponed tax relief for reinvested profit from January 2019 to January 2023 for financial institutions. This amendment has resulted in a GEL17.4M expense on the profit and loss statement and a GEL 5.1M reduction in equity in 2018. However, when enacted this potentially tax-free reinvestment of future profits, assuming the same or similar dividend payout, will nonetheless have a positive effect on lowering the Group's future effective tax rate by several percentage points, beginning in 2023.

National Bank of Georgia Investigation

The Audit Committee was actively involved in the review and response to the recent inspection by the NBG and related actions by the Georgian Office of Public Prosecution of certain transactions which took place in 2007 and 2008. As independent directors, we have taken all appropriate legal advice with regard to our responsibilities and actions in this scenario. The Audit Committee has worked closely with advisors, directors and the governance authorities in the Bank in order to reach informed conclusions. Further details of the inspection are outlined on page 68.

EXTERNAL AUDIT QUALITY, TENDER ASSESSMENT AND REAPPOINTMENT

As noted earlier, the Audit Committee is responsible for the assessment of the performance, objectivity and independence of the External Auditor and the delivery of a quality audit. Each year the Audit Committee is required to consider the reappointment of the auditors, the suitability of the lead engagement partner as well as the wider audit team and the remuneration and terms of engagement for the chosen auditor. This consideration has gained our focus since UK implementation of the EU Audit Regulations for Public Interest Entities. Given the incorporation of the Company and associated premium listing on the London Stock Exchange in 2016, the audit rotation rules permitted the 10-year "audit clock" for the mandatory tendering of the Group audit to be re-set, to start in that year, obviating any requirement for a mandatory audit tender in the foreseeable future.

Nevertheless, PwC has been the Group's and the Company's external auditor since 2008 and 2016 respectively. Therefore, the Committee held extensive discussions during the year on the merits and demerits of putting the Company's audit out for tender. Consequently the Audit Committee, reporting to the Board, embarked on a series of discussions during the year with three other major international accounting firms and conducted a benchmarking exercise in respect of the potential appetite, skillset and likely fees proposed by other firms were they to take over our audit. We concluded that a superior offering at more competitive rates was not yet on offer. In particular, we regret that more 'Big Four' audit firms are not yet adequately resourced in the Georgian market, although we do observe an encouraging trend in this direction. The Audit Committee carried out a formal External Auditor Assessment Review in late-2018, which confirmed our view that PwC continue to perform satisfactorily.

In addition we held a series of relationship meetings with PwC in both London and Tbilisi to discuss potential improvements in terms of their commitment to the Group especially of resources from their wide international network of subject matter experts as well as their fee charging metrics. The Audit Committee collectively concluded, with the concurrence of the Board, that we had reached a satisfactory understanding with PwC. We also discussed and agreed that the combination of a new lead engagement partner in London for the Company's audit and a relatively new lead partner for the Bank's audit would give us sufficient assurance over 'fresh pairs of eyes' and reduce any risk of over-familiarity. We will review again the case for and against a formal audit tender during 2019/2020 and will make a decision at that time based on the Board's continuing satisfaction with the service and value offered by our incumbent auditor. In the meantime, we will take an even more sceptical view of allowing PwC to undertake any non-audit work that is not inherently tied to its role as our external auditor.

We have discussed with PwC the investigation by the National Bank of Georgia into events of 2007/8, and agreed certain follow up actions. PwC confirm to us that they have undertaken additional audit procedures, which confirm their original audit risk assessment related to internal controls and related party transactions. On this basis, the Committee and PwC are both satisfied that there is no further evidence to suggest similar transactions that would affect the audit opinion. Given the above considerations, it is our belief that the Company has complied for the financial year under review with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

EXTERNAL AUDITOR FEES, INDEPENDENCE AND PROVISION OF NON-AUDIT SERVICES

PwC provide the financial audit both for the Company and the Bank. In 2018 fees to PwC for total contracted audit-related work for the Group totalled approximately (using year end exchange rates) US$771,200 net of taxes of which nearly 28% was for the Company's audit and the rest for the Bank's. For our 2019 audit, subject to confirmation and shareholders' approval of their reappointment, we continue to discuss with PwC the audit fees and additional resource commitment from them.

As a committee, we are following closely the extensive debate and multiple commissioned official reports concerning UK audit quality, competition and regulations. We await the outcome of these studies and also any regulatory impact of Brexit given potential changes to EU rules in relation to audit. In the meantime all four major UK audit firms have announced that they broadly support a ban (most likely from 2020) on UK auditors selling consultancy services to their audit clients.

The Audit Committee is rigorous in ensuring that all non-audit assignments to our External Auditor do not jeopardise the latter's proper independence of judgement. We will typically use our External Auditor only where such non-audit services are required by legislation to be undertaken by the incumbent auditor or where the service is an immediate 'by product' of the audit process. Essentially, all such engagements, without exception or derogation, are first recommended by the CFO and must be approved in advance by the Audit Committee and we will only use PwC for non-audit (and of course non-prohibited) services where there is either a clear synergy with their audit role or where they offer superior competence or materially better commercial terms. We have a system in place for precisely tracking procurement and tendering for all non-audit fees however small. As noted, we have already agreed to minimise all non-audit work contracted with our External Auditor.

In terms of non-audit services (NAS), in 2018 PwC were engaged only for the certification of financial covenants and the fees for NAS amounted to a negligible sum, less than $10,000 and less than 1% of audit services in 2017 and 2018 . Total spend with all non-PwC audit firms amounted to approximately $0.5M (excluding taxes) of which part related to audit of various small entities within TBC Group and most was for consultancy-type projects. The Company made an effort to broaden its relevant service providers beyond the 'Big Four' and we paid some $0.1M to smaller international accountancy firms. The largest single non-audit spend item was paid for due diligence in relation to Nikoil Bank, the Azeri firm with which TBC Kredit is merging in that country, and other significant items related to tax audits and backtesting of our IFRS9 models, other IFRS automation projects, budgeting and profitability automation process as well as valuation of real estate as collateral for our loans. Contracts were shared between 5 different firms beyond PwC. We will continue to work with other firms not only to preserve auditor independence but to build relations and user experience with these firms that may be useful when we come to tender our audit contract in due course.

PwC have confirmed in writing (in their annual 'independence letter') both their independence and that no 'blacklisted' prohibited non-audit services were provided during the course of 2018. Reviewing and ensuring the continuation of the independence and objectivity of PwC as our external statutory auditors is an important factor in fulfilling our governance procedures as an Audit Committee and is equally monitored by PwC, who have their own processes for pre-approving any non-audit services that they may be invited to provide.

We remain satisfied, taking account also of the views of Internal Audit and Management, that PwC have a robust process for maintaining independence and monitoring such compliance in accordance with the FRC Revised Ethical Standard 2016. In our view, as formally confirmed in a Committee meeting resolution in December, PwC continue to offer an independent, professional and cost-effective service that is capable of detecting irregularities leading to material misstatements in the financial statements and have brought to bear an appropriate degree of professional scepticism. Any potential threats to auditor objectivity, such as overfamiliarity or self-review are constrained by existing safeguards. In particular, we are convinced that the objectivity of the lead audit engagement partner and audit staff is not impaired. We reached this conclusion on the basis of PwC's openness to challenge, our perception of their proper independence from Management and absence of any material prior year financial restatements. We are satisfied that the markets and models to which valuations are marked have liquidity and transaction profiles that are adequate and sufficiently robust. We believe that all off balance sheet and contingent liabilities have been sufficiently identified and disclosed in sufficient detail.

INTERNAL AUDIT GOVERNANCE

The Committee has continued its detailed dialogue with Internal Audit ("IA") during the year. The Audit Committee relies heavily on IA to provide an objective and professionally sceptical view of how the Bank is handling a number of key financial and non-financial reporting and record-keeping tasks. Whilst primary responsibility to manage risk always resides with Management, IA's role, as the "third line of defence", is to identify potential problems and recommend ways of improving risk management and internal controls. The Audit Committee meets regularly with the Head of IA (Chief Audit Executive ("CAE")) with no management present. The CAE always attends the entirety of our Audit Committee meetings. The Chairman of the Audit Committee is in at least monthly (and often

weekly) contact with the CAE, who functionally reports unambiguously to him. Given the overlap of particularly operational risk issues, the CAE is now invited to attend also meetings of the Bank's Risk Committee.

We are satisfied that IA has sufficient human and financial resources to perform its role and the Audit Committee has where necessary requested additional funds for them to purchase the training and tools (e.g. specialist software) necessary for them to function effectively. Recently we hired a new internal auditor for IT risk who has a strong background in information security. The Audit Committee requires all IA executives to attend training including for relevant international (Certified Internal Auditor) exams. Recently, the senior team attended training in London at the Chartered Institute of Internal Auditors. Experienced internal audit resources are a finite skill pool in Georgia but we are lucky to have a competent team.

IA's Audit's Charter was reviewed and approved in December 2018, largely unchanged from the previous Charter. The Audit Committee routinely reviews IA's remit, annual and rolling five year plans, provides feedback on it and authorises any changes to its scope. We provide targets for and formal assessment of IA and ensure that it is effective and suitably embedded in the organisation. The CAE routinely attends (as observer) monthly Management Board meetings, makes an extensive quarterly submission to the Audit Committee and delivers a formal status report on its work at every Board meeting. The Audit Committee solely determines Internal Audit's budget and compensation including variable bonus payments to the CAE and her staff; the Audit Committee is also responsible for supervising the annual personal performance assessment of the CAE drawing on input from peers, direct reports and senior management including the CEO and CFO. The Audit Committee has conducted an assessment confirming the objectivity and independence of the CAE and has also concluded that the activities of IA are undertaken with sufficient arms-length independence from Management and are free from any interference in determining the scope of internal auditing, the performance of IA's work and communication of its results.

We believe that IA has not only established its independence from Management but feels properly empowered and motivated to do its job. It is respected by Management and of use to them, its value reflected in the latter's proactive requests (with sign off from the Audit Committee) for their involvement in various projects and investigations.

During 2018 the Audit Committee conducted an assessment of IA's function concluding that the department is suitably structured and proactively meets its assurance objectives. We are in compliance with the vast majority of the best practice targets established by the Chartered Institute of Internal Auditors in its September 2017 guidance on effective internal audit in the financial services sector. We supervised the Bank's first ever External Quality Assessment of our IA function which was recently completed by a 'Big Four' consultant (following a tender to multiple candidate firms both within and beyond the Big Four). We were reassured by the results in terms of conformity with the Code of Ethics and International Standards for the Professional Practice of Internal Auditing. Various recommendation were made and will be implemented, in particular we noted the recommendation for more regular high-level alignment between IA and other assurance providers, notably the chief risk and chief compliance officers.

IA have delivered their annual assurance statement which sets out the CAE's opinion together with the summarised reports of the internal audit work performed during the year and a summary of audit performance in comparison to the plan and an assessment of compliance with auditing standards.

INTERNAL AUDIT PROJECTS AND EVOLUTION

IA seeks to complete audits of all the Bank's key operating units on a regular recurring basis structured through a rolling audit plan agreed in advance with the Audit Committee. Such planned audits continued throughout the year and 99% of all pre-agreed internal audit assignments were completed in 2018. We track very closely all deficiencies both in terms of severity and trend and scrutinise remediation follow-up with historic analyses being carefully maintained. Units of the Bank which showed weaknesses are routinely re-inspected to confirm if improvements have been made and the Committee updated on the results of these repeat audits; the re-audit of TBC Pay in 2018 is a good example of this practice. The Committee was pleased to note that in 2018 there was a further improvement in the rate and speed of remediation of identified IA deficiencies.

The Audit Committee is overseeing a project to move the Internal Audit function towards a more 'agile' approach. We are seeking to use root cause analysis to develop more themed reports, prioritising the higher risk areas of the Bank and responding even more rapidly to emerging issues, undertaking special deep-dive investigations (particularly arising from situations where the Bank may have heightened vulnerability or has been the victim of fraud) and ensuring that IA is able to identify systemic control vulnerabilities and to add more strategic value. Capitalising on new software tools, we will be shifting the emphasis from heavily-documented audits in search of findings to a more outcome-driven approach delivering 'right-sized' audits, balancing value preservation (assurance) with value creation (advisory). We hope to apply the power of data to deliver 'intelligent audit'.

In addition to its regular workload, there were a number of one-off projects commissioned by the Audit Committee from IA in 2018. For example, we asked them to re-validate identification/reporting processes around capturing and disclosing related party lending and anti-money laundering procedures within the Group, including the ultimate destination of approved loans. We also requested IA to confirm the adherence of the Bank to its approved Risk tolerances. In addition to these assignments, IA conducted special audits into a number of important areas some of them for the first time, notably TBC Insurance (the newly acquired and fast-expanding subsidiary of the Company where some process were inherited from the previously-acquired Kopenbur company) and TBC Leasing and also, as noted, a follow-up review of TBC Pay to confirm process improvements had been completed after some frauds were previously uncovered in this subsidiary. Reviews were also undertaken into the Bank's Procurement, HR, E-Commerce, SWIFT security compliance and Treasury functions.

Towards the end of the year, we asked IA to undertake its first formal review of culture and behaviour within the Bank. As non-executive directors of a company, it can at times be a challenge to remain cognisant of the prevailing culture at lower levels of an organisation. It is at these levels of the organisation that the opportunity, incentives and pressures for staff to commit dishonest acts or to by-pass critical procedures and even to rationalise such behaviour, can arise. Therefore, the Audit Committee considers that such a cultural audit is essential to monitoring behavioural and operational risks presented by the Bank's most valuable asset, its human capital, and to ensuring that employees 'live' the ethical values espoused by the Company. As of January 2019, the IA includes ethics-related evaluation within every audit engagement. The Board and Audit Committee of the Company have agreed that the RECC will supervise the ongoing monitoring of behavioural standards as part of its formal ethics remit.

We discussed the international expansion plans of the Bank (notably in Azerbaijan and Uzbekistan) and, whilst these remain in formative stages, we are taking steps to ensure that the high standards within the Bank in Georgia are replicated across these countries some of which we are aware have a country-wide raised level of operational risk. Our CAE is already spending some time overseas and will act as an observer on the Audit Committee of the bank that we are in the process, subject to licensing, of establishing in Uzbekistan. On a wider issue, we are aware of the strains that international expansion can potentially place on the controls and finance team of the Group and are taking steps to ensure that competent resources are in place to cope with the extra workload involved.

CONTROL ENVIRONMENT

A sound system of internal control contributes to safeguarding the best interests of all stakeholders and the Company's assets and liabilities. Management is responsible for establishing and maintaining adequate internal controls over the capturing, processing and reporting of financial information but the Audit Committee has responsibility for ensuring the effectiveness of these controls and for confirming that they are sufficiently robust to cope with changing economic conditions and continued strong growth in the Bank. We evaluate Management's identification of fraud risk and implementation of anti-fraud measures and also supervise investigation of any alleged or suspected frauds brought to our attention. We seek to establish the right 'tone at the top' and to assess whether the Company is a high integrity organisation from top to bottom. The Board as a whole continuously monitors the Bank's internal control systems with Audit Committee and RECC sharing a coordinated focus on controls relating to financial, compliance, operational resilience, cyber security and data integrity risks.

The Committee regularly reviews progress in this vital discipline and alerts the CEO, CFO, divisional heads and if necessary the full Board where it occasionally sees intractable problems and insufficient commitment to continuous process improvement. The Audit Committee was pleased to note that in 2018 there was a further improvement (varying somewhat by division) in the rate and speed of remediation of identified IA deficiencies, and the Bank is implementing more methods for automating procedures which reduce the risks of human error or malpractice and also deliver cost-saving benefits.

In accordance with our mandate, we have reviewed the robustness of the Bank's controls, working with our External Auditors, our Operational Risk department and Internal Audit. In the opinion of the Committee, there is a proper system and allocation of responsibilities for day to day monitoring of financial controls within the Group and no significant systemic failings or weaknesses. We have also considered the risk of executive override of controls, and discussed with PwC their assessment of this mandatory significant audit risk. We ensure that the remuneration of senior and middle management is calibrated so that they are not incentivised to take unhealthy short-term risks to generate personal rewards.

We note that the only non-standard representations requested from or provided to PwC in respect of the "management representation letter" signed by the Group's CEO, CFO, CRO and Head of Corporate and Investment Banking, relate to the NBG inspection. Also additional representations have been requested by PWC from the Chairman and deputy Chariman of the board. Together with the RECC, we have also received regular updates from the Chief Compliance Officer on the implementation of the Bank's compliance programme which we consider to be sufficiently robust.

We are in the process of instituting a new Internal Audit scoring system that sets clear thresholds on what level of 'failure' is unacceptable and which processes demand zero failure rates. The CEO's variable compensation is partly determined by his score for meeting agreed leadership metrics which include support for resolution of negative Internal Audit findings.

Notwithstanding improved controls, the Audit Committee last year was made aware of and supervised investigations into a number of fraud cases which in aggregate amounted to approximately US$850,000 with net losses amounting to a smaller amount after insurance and recoveries. Most of these losses related to fraudulent disbursements by loan officers based on false documentation and controls have been further tightened in this area. A quarter of losses arose in TBC Pay. After every noted fraud event larger than US$20,000, Management conducts a full post-mortem which is shared with the Audit Committee and often the full Board (as well as the CEO and divisional head responsible) in order that, where necessary, any lessons are learnt, so as to avoid any future repeat events. The Audit Committee has directly discussed all larger frauds with senior management and is confident that the CEO and his deputies have taken full ownership of the issues and rectified any vulnerabilities arising. Our experience over the course of 2018 suggested that typically our processes were watertight but had not been fully followed due to human error or deliberate malfeasance. On each occasion, the Audit Committee was promptly notified in accordance with escalation procedures.

In 2018 the Committee liaised closely with the RECC to undertake a deep-dive into Operational Risk structures within the Bank, working with the new head of this department. One of the conclusions of this work was the need for a more streamlined approach to managing, investigating and reporting fraud risk events given some historic dispersion of responsibilities in this regard.

As a matter of policy, the Audit Committee has sought this year to prioritise oversight of all the Bank's subsidiaries with additional reporting to central functions, whilst not diminishing the authority of subsidiary executives. We are rolling out best practice policies universally across the Group and these are 'policed' accordingly by Internal Audit.

In 2016 the Bank's 'whistleblowing' or anonymous hotline for staff and external entities went live, alerting the Bank to any potentially unsatisfactory practices relating to customers, other third party entities and our employees. Arrangements are in place for proportionate and independent investigation of all such cases and appropriate follow up actions. The Audit Committee as well as RECC reviews each reported case on an at least quarterly basis. Our experience over 2018 has been that many of these cases have been minor in scale and nature, and typically related to regular customer complaints (profiled as whistleblowing events to raise the level of attention) and breaches of the Group's behavioural code of conduct or have involved low-level disclosure of confidential customer information; few have been vexatious and almost all have been worthwhile 'alarms'. Most importantly, we believe that our employees and customers have come to realise that 'speaking up' is valued and taken seriously.

The Audit Committee works closely with the Remuneration Committee, where we have a majority of overlapping members. We are comfortable that the compensation policies and practices for top executives are appropriate for maintaining a robust control environment and consistent with good stewardship. As stated, the CEO's compensation is partly linked to a Leadership KPI which includes as one of its key elements an "Internal Audit Engagement" factor and since May 2018 the Bank's branch directors have also had an operational risk mitigation KRI attached to their remuneration.

IT, CYBER-SECURITY AND DATA PROTECTION

The Audit Committee has supervised an internal cyber 'health check' and 'gap analysis' and concluded that, whist there are areas for improvement (with a plan to address these), the risk environment is satisfactory and that we have sufficient prevention, detection and containment practices in place. In line with the adoption of General Data Protection Regulation (GDPR) from May 2018, the Committee working with its Risk Committee counterpart has taken measures, particularly in relation to its overseas customers and employees, to ensure that the Bank complies in full with GDPR. We note that even historically there was very limited export of the Bank's data outside its non-EU operational markets.

The Bank has established some cyber-risk insurance cover but is fully conscious that this area of insurance is evolving, only partial in protection and no substitute for having rigorous data policies in place. We are anticipating GDPR equivalent laws coming into force in Georgia and are taking steps to be fully prepared for this. Georgia has just appointed a new data regulator, the Office of the Personal Data Protection Inspector (PDP), who we understand are currently working on amendments to the local law in order to align it with the EU's GDPR. Safeguarding of customer data remains a paramount concern for all of us.

The Group's Management continuously seeks to raise cyber-security risk standards within the organisation requiring almost all employees to pass an IT security awareness test covering vital vulnerabilities such as access control.

Following the IT governance review in 2017 at the behest of the NBG, in 2018 we commissioned a major American IT consulting company to undertake an IT governance maturity audit, in order to understand better the current level of alignment between 'business' and IT and to identify any potential gaps and related improvement actions. This looked, inter alia, into whether IT was managing risks correctly. The conclusion of this study was encouraging. A high level of awareness of the execution challenges in the IT change environment and confirmation that the Bank is receiving value from IT was found. However, there remains scope for further IT governance improvement in achieving IT transformation goals, particularly in relation to leveraging big data and advanced analytics. These improvements are being implemented.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, TBC Bank Group PLC's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise the:

- Consolidated and Separate Statements of Financial Position as at 31 December 2018;
- Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- Consolidated and Separate Statements of Cash Flows for the year then ended;
- Consolidated and Separate Statements of Changes in Equity for the year then ended; and
- Notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 33 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall group materiality: GEL 25.5 million (2017: GEL 19.7 million), based on 5% of profit before tax.
- Overall parent company materiality: GEL 15.5 million (2017: GEL 14.7 million), based on 1% of total assets.
- Our scoping was driven by legal entity contribution to profit before tax and also by geographical location. This approach also ensures that we align our resources with the location of the key financial reporting functions and material operations of the group. We also considered overall coverage in assessing the appropriateness of our scoping. Our primary location for scoping purposes is Tbilisi, Georgia.
- The key audit matters which were of most significance in the audit of the consolidated financial statements were credit losses of loans and advances to customers, and matters related to the National Bank of Georgia investigation.
- There were no key audit matters to report on the audit of the parent company financial statements.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and the legal, regulatory and banking industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the National Bank of Georgia, and we considered the extent to which non-compliance might have a material effect on the group and parent company financial statements. We address this as a Key Audit Matter below. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, the Listing Rules and UK and local tax legislation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries of management, including the group's Chief Legal Counsel, and Internal Audit, in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters;
- Observing the effectiveness of key governance committees and reviewing management information presented at these meetings;
- Reading key correspondence with regulatory authorities and legal advisors;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances; and
- Identifying and testing journal entries.

There are inherent limitations in the audit procedures described above, and the further removed that non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We did not identify any key audit matters relating to irregularities, including fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The key audit matters below relate to the group. There are no matters that impact the parent company only.

Key audit matter	How our audit addressed the key audit matter
Credit losses of loans and advances to customers Refer to pages 156 to 166 (Audit Committee Chair's report), pages 183 to 204 (Summary of Significant Accounting Policies), page 204 to 205 Critical Accounting Estimates), and pages 212 to 223 (note 9: Loans and Advances to customers). We focused on this area as the management estimates regarding impairment of loans are complex and require a significant degree of judgement, which increased with implementation of expected credit loss ('ECL') approach effective from 1 January 2018 as required by IFRS 9 Financial Instruments. Credit loss allowances represent management's best estimate of expected credit losses ('ECL') within each portfolio at the balance sheet date. Under IFRS 9 management is required to determine ECLs that may occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether or not there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. Management has designed and implemented a number of models to achieve compliance with the requirements of IFRS 9. Among others, management has applied judgement in situations where past experience was not considered to be reflective of future outcomes due to limited or incomplete data. As a result, we consider that this represents a key audit matter. We consider the appropriateness of the model methodologies and the following judgements used in the determination of the modelled ECL to be significant: › Setting of appropriate criteria for what represents an SICR; › Judgements and assumptions applied in the determination of loss given default ('LGD') and probability of default ('PD'); and › Assessment of model limitations and use of post model adjustments ('PMAs') if required to address such risks.	We understood and evaluated the design of the key controls over the determination of ECLs and tested their operating effectiveness. These controls included among others: › Model performance monitoring controls, including testing model estimates against actual outcomes; › Review and approval of the key judgements and assumptions used for determining an SICR, LGDs and PDs; › Controls over the completeness and accuracy of data flow between systems; › Manual controls over parameters calculation by the calculation engine; › Manual controls over designation of exposures as restructured. We noted no exceptions in the design or operating effectiveness of the above controls. We assessed whether the IFRS 9 ECL model methodologies developed by management are appropriate, making use of our credit risk modelling experts and our industry knowledge. This included an evaluation of the criteria set by management for determining whether there had been a significant increase in credit risk ('SICR'), and the judgements and assumptions applied in determination of LGDs and PDs. We also critically evaluated management's assumptions in response to data limitations, focusing on long-term PDs. We concluded that management's judgements in deriving LGDs and PDs were reasonable. We independently verified the calculation of ECL, and assessed whether the ECL calculations were consistent with the approved model methodologies. We critically evaluated key aspects of model monitoring and validation ("backtesting" of projected ECL) performed by management relating to model performance and stability and critically assessed the monitoring results. We found no exceptions in this work. We considered whether PMAs were required to address relevant risks that were not captured in the modelled provisions. We were satisfied that no PMAs are required. Based on the procedures performed and the evidence obtained, we concluded that management's judgements used in the determination of the ECLs were reasonable.

Matters related to National Bank of Georgia investigation

On 19 November 2018, the National Bank of Georgia ('NBG') issued a report concerning JSC TBC Bank, the main subsidiary of TBC Bank Group plc. The NBG's report relates to its inspection of loans issued to the Bank's clients in 2008. These loans were immediately paid to the two founders of the Bank. The clients' loans were fully provided for by the Bank at the end of the same year. NBG concluded that, in relation to these transactions, the Bank had failed to fully comply with NBG Decree 116 on "Regulation of Conflicts of Interests and Transactions between Bank Administrators and related Parties".

The NBG conclusion resulted in a GEL 1.1m fine, and required the two founders to step down from the Supervisory Board of JSC TBC Bank. The Bank is also required to appoint 2 new board members within a period of 3 months.

We focused on the implications of this matter for our audit approach and risk assessment, and the appropriateness of audit procedures performed with respect to management override of controls, related party lending, any material unrecorded regulatory fines, and the reliability of management representations.

We read the NBG report and other related correspondence between NBG and the Bank, in order to understand the nature and extent of the NBG conclusions, and we considered the impact of these on our audit.

We made inquiries of the founders of the Bank, and other Board executives, including Legal Counsel and Head of Compliance, to more fully understand the NBG findings in detail, including requesting and reviewing additional documentation from the Bank's records.

We discussed our work with TBC Bank Group plc's Audit Committee, and understood the approach taken by the independent directors to fulfil their obligations.

We carried out the following additional audit procedures and looked back over the period from 2008:

- We re-confirmed our understanding of the oversight and monitoring controls that management has in place regarding related party transactions. We tested these controls to assess whether they were operating effectively.
- We examined the loan book data to identify any unusual items, including any loans with terms which appeared unusual with respect to commercial terms, for example, maturity, interest rate.
- We analysed reported related party credit exposures for any unusual terms.
- We examined the list of loans which had been written off, and obtained explanations for any unusual items.
- We tested a sample of loans to assess whether funds issued to borrowers had been used according to the approved lending purposes.
- We checked the Bank's correspondence with NBG.
- We reviewed the work of Compliance and Internal Audit in the area of related party procedures, and evaluated any remediation undertaken by management of findings in this regard.
- We verified that the fine had been correctly accounted for in the Bank, and agreed it to the payment made on 12 March 2019.

Based on the audit procedures performed, no material issues were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

TBC Bank Group's banking and insurance activities are primarily carried out in Georgia, with small subsidiary operations in four other countries. The Group's business activities comprise of four segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate and Investment Banking and Micro Small and Medium Enterprises ('MSME') and Corporate Centre.

JSC TBC Bank is the largest subsidiary of the London listed group. Its main operations are Retail and Commercial banking, with all significant operations based in Georgia. Accounting functions and management of JSC TBC Bank are primarily based in Georgia, and represents 97% of the group assets and 96% of profit before tax. We performed audit procedures over this component which is considered financially significant in the context of the group, using a materiality of GEL 24.2 million (2017: GEL 18.7 million). We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

Our audit approach and team was also designed to reflect the structure of the group, and we therefore used component auditors from PwC in each of the relevant territories, all of whom are familiar with the relevant businesses in their geographical locations, to audit the relevant component that was in scope for the group audit. As part of the planning and execution of the audit, the UK audit team visited the significant component in Georgia on several occasions, in order to ensure that the procedures performed to support the group audit were sufficient for our purposes. Specific audit procedures were also performed at the UK parent company, mainly related to the presentation of the group financial statements, the consolidation process, taxation and elements of laws and regulations specific to the UK. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 92% of revenue and 98% of total assets of the group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Overall materiality	GEL 25.5 million (2017: GEL 19.7 million).	GEL 15.5 million (2017: GEL 14.7 million).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the consolidated Group, and is a generally accepted auditing benchmark.	The parent company is a holding company with investments in the subsidiaries within the Group. The parent company's performance is measured based on the value of these investments, and therefore total assets is considered an appropriate materiality benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between GEL 24.2 million and GEL 25.5 million. Certain components were audited to a local statutory audit materiality that was less than our overall group materiality allocation.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above GEL1.3 million (group audit) (2017: GEL 0.9 million) and GEL 0.8 million (parent only) (2017: GEL 0.7 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 118 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 118-119 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 119, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 159 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 119, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited, are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 11 August 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2016 to 31 December 2018.

Jeremy Foster

Jeremy Foster
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 April 2019

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	**Note**	**31 December 2018**	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents		**2,204**	210	399
Due from other banks		**79,135**	11,564	2,320
Loans and advances to customers		**-**	24,000	2,000
Other financial assets		**170**	219	303
Investments in Subsidiaries		**1,473,168**	1,429,485	1,424,066
Other assets		**3**	8	4
TOTAL ASSETS		**1,554,680**	1,465,486	1,429,092
LIABILITIES				
Other financial liabilities		**2,334**	825	165
TOTAL LIABILITIES		**2,334**	825	165
EQUITY				
Share capital	25	**1,650**	1,605	1,581
Share premium	25	**796,854**	714,651	677,211
Retained earnings		**668,364**	670,444	745,638
Profit/(loss) for the year		**121,306**	86,789	(385)
Other reserves	26	**(35,828)**	(8,828)	4,882
TOTAL EQUITY		**1,552,346**	1,464,661	1,428,927
TOTAL LIABILITIES AND EQUITY		**1,554,680**	1,465,486	1,429,092

The financial statements on pages 175 to 297 were approved by the Board of Directors on 2 April 2019 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

Registered No. 10029943

The notes set out on pages 182 to 297 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

In thousands of GEL	Note	Share capital	Share premium	Other re-serves	Retained earnings	Total equity
Balance as of 26 February 2016		–	–	–	–	–
Loss for the period		–	–	–	(385)	(385)
Total comprehensive expense for 2016		–	–	–	(385)	(385)
Merger relief and capital reduction	25	1,494	565,030	–	745,638	1,312,162
Share issue	25	87	112,181	–	–	112,268
Share based payment accrual	26	–	–	4,882	–	4,882
Balance as of 31 December 2016		1,581	677,211	4,882	745,253	1,428,927
Profit for the year		–	–	–	86,789	86,789
Total comprehensive income for 2017		–	–	–	86,789	86,789
Share issue	25	24	37,440	(24,253)	–	13,211
Dividends declared	25	–	–	–	(74,809)	(74,809)
Share based payment accrual	26	–	–	10,543	–	10,543
Balance as of 31 December 2017		**1,605**	**714,651**	**(8,828)**	**757,233**	**1,464,661**
Profit for the year		**–**	**–**	**–**	**121,306**	**121,306**
Total comprehensive income for 2018		**–**	**–**	**–**	**121,306**	**121,306**
Share issue	25	**45**	**82,203**	**(38,668)**	**-**	**43,580**
Dividends declared	25	**-**	**-**	**-**	**(88,869)**	**(88,869)**
Share based payment accrual	26	**-**	**-**	**11,668**	**-**	**11,668**
Balance as of 31 December 2018		**1,650**	**796,854**	**(35,828)**	**789,670**	**1,552,346**

The notes set out on pages 182 to 297 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of GEL	**2018**	2017	2016
Cash flows from (used in) operating activities			
Interest received	**1,908**	1,348	1,149
Interest paid	**-**	–	(32)
Fees and commissions paid	**(12)**	(12)	(1)
Salaries and other employee benefits paid	**(3,797)**	(3,469)	(631)
Administrative and other operating expenses paid	**(3,569)**	(1,423)	(890)
Other operating income received	**16**	11	–
Cash flows used in operating activities before changes in operating assets and liabilities	**(5,454)**	(3,545)	(405)
Net change in operating assets			
Other financial assets	**5**	137	(167)
Other assets	**3**	–	(4)
Net change in operating liabilities			
Other financial liabilities	**(161)**	(3)	165
Net cash flows used in operating activities	**(5,607)**	(3,411)	(411)
Cash flows from (used in) investing activities			
Acquisition of subsidiaries	**-**	–	(3,423)
Cash contribution to subsidiaries	**(800)**	–	–
Proceeds from disposal of associate*	**-**	–	112,269
Dividend received	**124,561**	77,090	–
Income from recharge agreement	**8,955**	23,745	–
Dividend pay out	**(85,484)**	(66,733)	–
Capital contributions to subsidiaries other than through issuance of shares	**-**	–	(103,600)
Placement of deposit	**(39,555)**	(8,830)	(2,320)
Issuance of Debt	**-**	(22,000)	(2,000)
Net cash flows from investing activities	**7,677**	3,272	926
Cash flows from (used in) financing activities	**–**	–	–
Net cash flows from (used in) financing activities	**–**	–	–
Effect of exchange rate changes on cash and cash equivalents	**(76)**	(50)	(116)
Net increase (decrease) in cash and cash equivalents	**1,994**	(189)	399
Cash and cash equivalents at the beginning of the year	**210**	399	–
Cash and cash equivalents at the end of the year	**2,204**	210	399

*The amount of proceeds from disposal of associate in 2016 is attributable to sale of minority share of JSC Bank Republic by TBCG to JSC TBC Bank.

The notes set out on pages 182 to 297 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2018**	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents	6	**1,166,911**	1,431,477	945,180
Due from other banks	7	**47,316**	39,643	24,725
Mandatory cash balances with the National Bank of Georgia	8	**1,422,809**	1,033,818	990,642
Loans and advances to customers	9	**10,038,452**	8,325,353	7,133,702
Investment securities measured at fair value through other comprehensive income	10	**1,005,239**	-	-
Investment securities available for sale	10	**-**	657,938	430,703
Bonds carried at amortised cost	11	**654,203**	449,538	372,956
Investments in finance leases	13	**203,802**	143,836	95,031
Investment properties	16	**84,296**	79,232	95,615
Current income tax prepayment		**2,116**	19,084	7,430
Deferred income tax asset	34	**2,097**	2,855	3,511
Other financial assets	12	**167,518**	146,144	94,627
Other assets	14	**192,792**	156,651	171,263
Premises and equipment	15	**367,504**	366,913	314,032
Intangible assets	15	**109,220**	83,492	60,957
Goodwill	17	**31,286**	28,658	28,658
Investments in Associates		**2,432**	1,278	-
TOTAL ASSETS		**15,497,993**	12,965,910	10,769,032
LIABILITIES				
Due to credit institutions	18	**3,031,503**	2,620,714	2,197,577
Customer accounts	19	**9,352,142**	7,816,817	6,454,949
Other financial liabilities	22	**98,714**	91,753	50,998
Current income tax liability		**63**	447	2,577
Debt securities in issue	20	**13,343**	20,695	23,508
Deferred income tax liability	34	**22,237**	602	5,646
Provisions for liabilities and charges	21	**18,767**	13,200	16,026
Other liabilities	23	**104,337**	84,440	66,739
Subordinated debt	24	**650,919**	426,788	368,381
TOTAL LIABILITIES		**13,292,025**	11,075,456	9,186,401
EQUITY				
Share capital	25	**1,650**	1,605	1,581
Share premium	25	**796,854**	714,651	677,211
Retained earnings		**1,523,879**	1,232,865	955,173
Group reorganisation reserve	25	**(162,166)**	(162,166)	(162,166)
Share based payment reserve	26	**(16,294)**	9,828	23,327
Revaluation reserve for premises		**57,240**	70,045	70,460
Fair value reserve		**8,680**	-	-
Revaluation reserve for available-for-sale securities		**-**	1,730	(3,681)
Cumulative currency translation reserve		**(6,937)**	(7,359)	(7,538)
Net assets attributable to owners		**2,202,906**	1,861,199	1,554,367
Non-controlling interest	39	**3,062**	29,255	28,264
TOTAL EQUITY		**2,205,968**	1,890,454	1,582,631
TOTAL LIABILITIES AND EQUITY		**15,497,993**	12,965,910	10,769,032

The financial statements on pages 175 to 297 were approved by the Board of Directors on 2 April 2019 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

Registered No. 10029943.

The notes set out on pages 182 to 297 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	2018	2017	2016
Interest income	29	**1,284,235**	1,033,939	766,426
Interest expense	29	**(506,213)**	(429,924)	(275,973)
Net interest income		**778,022**	604,015	490,453
Fee and commission income	30	**235,701**	193,944	142,800
Fee and commission expense	30	**(78,171)**	(67,983)	(52,532)
Net fee and commission income		**157,530**	125,961	90,268
Net insurance premiums earned		**23,601**	12,633	1,222
Net insurance claims incurred and agents' commissions		**(11,326)**	(5,860)	(966)
Insurance Profit		**12,275**	6,773	256
Net gains from trading in foreign currencies		**91,678**	87,099	70,269
Net gains/(losses) from foreign exchange translation		**15,196**	4,374	(2,507)
Net gains/(losses) from derivative financial instruments		**173**	(36)	(206)
Net gains from disposal of Investment Securities measured at fair value through other comprehensive income		**2**	-	-
Net gains from disposal of available for sale investment securities		**-**	93	9,293
Other operating income	31	**31,438**	31,797	23,236
Share of profit of associates		**1,154**	909	-
Other operating non-interest income		**139,641**	124,236	100,085
Credit loss allowance for loan to customers	9	**(143,723)**	(93,823)	(49,202)
Credit loss allowance for investments in finance lease	13	**(1,765)**	(492)	(558)
Credit loss allowance for performance guaranties and credit related commitments	21	**(4,056)**	(153)	(771)
Credit loss allowance for other financial assets	12	**(16,609)**	(12,439)	(2,853)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		**(86)**	-	-
Impairment of investment securities available for sale		**-**	-	(11)
Operating income after credit impairment losses		**921,229**	754,078	627,667
Staff costs	32	**(220,354)**	(203,100)	(172,221)
Depreciation and amortisation	15,16	**(45,740)**	(37,265)	(28,082)
(Provision for)/recovery of provision for liabilities and charges	21	**(4,000)**	2,495	(2,210)
Administrative and other operating expenses	33	**(140,935)**	(121,530)	(109,475)
Operating expenses		**(411,029)**	(359,400)	(311,988)
Profit before tax		**510,200**	394,678	315,679
Income tax expense	34	**(72,765)**	(34,750)	(17,421)
Profit for the year		**437,435**	359,928	298,258
Other comprehensive income (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve	10	**6,949**	-	-
Revaluation of available-for-sale investments	10	**-**	5,489	522
Gains less losses recycled to profit or loss upon disposal		**-**	-	(11,611)
Exchange differences on translation to presentation currency		**425**	181	(948)
Income tax recorded directly in other comprehensive income	34	**-**	-	1,649
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment		**10,749**	-	-
Income tax recorded directly in other comprehensive income	34	**(2,363)**	(422)	10,928
Other comprehensive income for the year		**15,760**	5,248	540
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**453,195**	365,176	298,798
Profit is attributable to:				
- Shareholders of TBCG		**435,080**	354,410	299,145
– Non-controlling interest		**2,355**	5,518	(887)
Profit for the year		**437,435**	359,928	298,258
Total comprehensive income is attributable to:				
- Shareholders of TBCG		**450,903**	359,585	299,685
– Non-controlling interest		**2,292**	5,591	(887)
Total comprehensive income for the year		**453,195**	365,176	298,798
Earnings per share for profit attributable to the owners of the Group:				
– Basic earnings per share	27	**8.1**	6.7	6.0
– Diluted earnings per share	27	**8.0**	6.6	5.9

The notes set out on pages 182 to 297 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of GEL	Note	Share capital	Share premium	Group reorganisation reserve	Share based payments reserve	Revaluation reserve for premises	Revaluation reserve for available for sale securities	Fair value reserve[1]	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Net assets Attributable to owners											
Balance as of 1 January 2016		19,587	407,474	-	12,755	59,532	5,759	-	(6,590)	712,743	1,211,260	7,189	1,218,449
Profit (loss) for the year		-	-	-	-	-	-	-	-	299,145	299,145	(887)	298,258
Other comprehensive income		-	-	-	-	10,928	(9,440)	-	(948)	-	540	-	540
Total comprehensive income/(expense) for 2016		-	-	-	-	10,928	(9,440)	-	(948)	299,145	299,685	(887)	298,798
Share issue		87	112,182	-	-	-	-	-	-	-	112,269	-	112,269
Share based payment accrual	26	-	-	-	11,783	-	-	-	-	-	11,783	-	11,783
Change of parent company to TBCG	25	(18,129)	156,380	(162,166)	-	-	-	-	-	-	(23,915)	23,915	-
Increase in share capital arising from share based payment		36	1,175	-	(1,211)	-	-	-	-	-	-	-	-
Dividends declared		-	-	-	-	-	-	-	-	(55,162)	(55,162)	-	(55,162)
Purchase and cancellation of subsidiary shares		-	-	-	-	-	-	-	-	(1,553)	(1,553)	(1,953)	(3,506)
Balance as of 31 December 2016		1,581	677,211	(162,166)	23,327	70,460	(3,681)	-	(7,538)	955,173	1,554,367	28,264	1,582,631
Profit for the year		-	-	-	-	-	-	-	-	354,410	354,410	5,518	359,928
Other comprehensive income		-	-	-	-	(415)	5,411	-	179	-	5,175	73	5,248
Total comprehensive income/ (expense) for 2017		-	-	-	-	(415)	5,411	-	179	354,410	359,585	5,591	365,176
Share issue		21	32,308	-	(24,253)	-	-	-	-	-	8,076	-	8,076
Share based payment accrual	26	-	-	-	10,754	-	-	-	-	-	10,754	(211)	10,543
Conversion of shares	25	3	5,132	-	-	-	-			(1,909)	3,226	(3,197)	29
Dividends declared		-	-	-	-	-	-	-	-	(74,809)	(74,809)	(1,192)	(76,001)
Balance as of 31 December 2017		**1,605**	**714,651**	**(162,166)**	**9,828**	**70,045**	**1,730**	**-**	**(7,359)**	**1,232,865**	**1,861,199**	**29,255**	**1,890,454**
Impact of adopting IFRS 9 as at 1 January 2018	**4**	**-**	**-**	**-**	**-**	**-**	**(1,730)**	**1,730**	**-**	**(62,928)**	**(62,928)**	**(719)**	**(63,647)**
Balance as at 1 January 2018		**1,605**	**714,651**	**(162,166)**	**9,828**	**70,045**	**-**	**1,730**	**(7,359)**	**1,169,937**	**1,798,271**	**28,536**	**1,826,807**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**435,080**	**435,080**	**2,355**	**437,435**
Other comprehensive income		**-**	**-**	**-**	**-**	**8,466**	**-**	**6,950**	**422**	**-**	**15,838**	**(63)**	**15,775**
Total comprehensive income/(expense) for 2018		**-**	**-**	**-**	**-**	**8,466**	**-**	**6,950**	**422**	**435,080**	**450,918**	**2,292**	**453,210**
Share issue		**23**	**42,031**	**-**	**(38,669)**	**-**	**-**	**-**	**-**	**-**	**3,385**	**-**	**3,385**
Share based payment accrual	**26**	**-**	**-**	**-**	**12,547**	**-**	**-**	**-**	**-**	**-**	**12,547**	**(879)**	**11,668**
Conversion of shares	**26**	**22**	**40,172**	**-**	**-**	**-**	**-**	**-**	**-**	**(17,838)**	**22,356**	**(22,356)**	**-**
Dividends declared										**(88,950)**	**(88,950)**	**(116)**	**(89,066)**
Transfer of revaluation surplus of derecognised assets to retained earnings		**-**	**-**	**-**	**-**	**(21,271)**	**-**	**-**	**-**	**21,271**	**-**	**-**	**-**
Purchase of additional interest from NCI		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,379**	**4,379**	**(4,415)**	**(36)**
Balance as of 31 December 2018		**1,650**	**796,854**	**(162,166)**	**(16,294)**	**57,240**	**-**	**8,680**	**(6,937)**	**1,523,879**	**2,202,906**	**3,062**	**2,205,968**

The notes set out on pages 182 to 297 form an integral part of these financial statements.

1 On 1 January 2018 the Group adopted IFRS 9 which replaced IAS 39. Upon adoption of IFRS 9 the balance of available for sale reserve was replaced by the fair value reserve in accordance with the new requirements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of GEL	Note	2018	2017	2016
Cash flows from (used in) operating activities				
Interest received		**1,224,606**	1,000,571	735,705
Interest paid		**(501,984)**	(424,105)	(273,795)
Fees and commissions received		**235,508**	195,285	144,247
Fees and commissions paid		**(78,140)**	(68,036)	(52,154)
Insurance premium received		**54,682**	23,518	1,591
Insurance claims paid		**(15,174)**	(9,127)	(703)
Income received from trading in foreign currencies		**91,678**	87,099	70,411
Other operating income received		**11,407**	8,992	8,411
Staff costs paid		**(202,897)**	(187,520)	(148,656)
Administrative and other operating expenses paid		**(136,670)**	(112,270)	(104,077)
Income tax paid		**(34,918)**	(53,916)	(34,279)
Cash flows from operating activities before changes in operating assets and liabilities		**648,098**	460,491	346,701
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(343,772)**	(98,586)	(448,582)
Loans and advances to customers		**(1,718,446)**	(1,330,105)	(1,219,501)
Investment in finance lease		**(54,784)**	(49,297)	(11,687)
Other financial assets		**(35,570)**	(38,064)	(22,965)
Other assets		**(4,486)**	73,814	(843)
Net change in operating liabilities				
Due to other banks		**69,755**	(228,486)	265,679
Customer accounts		**1,371,675**	1,329,071	1,150,146
Other financial liabilities		**(12,136)**	18,263	5,724
Other liabilities and provision for liabilities and charges		**3,618**	3,487	332
Net cash flows from (used in) operating activities		**(76,048)**	140,588	65,004
Cash flows from (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	**(717,729)**	-	-
Acquisition of investment securities available for sale	10	**-**	(560,226)	(143,980)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	**14,781**	-	-
Proceeds from disposal of investment securities available for sale	10	**-**	-	11,868
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	**370,571**	-	-
Proceeds from redemption at maturity of investment securities available for sale	10	**-**	345,748	166,871
Acquisition of subsidiaries, net of cash acquired		**809**	(273)	(91,404)
Acquisition of bonds carried at amortised cost	11	**(395,717)**	(307,248)	(304,109)
Proceeds from redemption of bonds carried at amortised cost	11	**200,658**	242,380	314,231
Acquisition of premises, equipment and intangible assets	15	**(89,263)**	(114,383)	(50,689)
Proceeds from disposal of premises, equipment and intangible assets		**813**	1,932	1,273
Proceeds from disposal of investment property		**42,515**	19,082	7,822
Net cash flows used in investing activities		**(572,562)**	(372,988)	(88,117)
Cash flows from (used in) financing activities				
Proceeds from other borrowed funds		**1,776,489**	1,461,191	903,502
Redemption of other borrowed funds		**(1,515,562)**	(800,333)	(666,156)
Proceeds from subordinated debt		**255,900**	119,859	136,817
Redemption of subordinated debt		**(60,910)**	(59,671)	(90,416)
Proceeds from debt securities in issue		**(7,596)**	-	4,354
Redemption of debt securities in issue		**-**	(2,123)	(4,636)
Dividends paid		**(85,484)**	(67,927)	(54,560)
Acquisition of non-controlling interest in subsidiary		**-**	-	(3,495)
Issue of ordinary shares		**-**	29	-
Net cash flows from financing activities		**362,837**	651,025	225,410
Effect of exchange rate changes on cash and cash equivalents		**21,207**	67,672	22,536
Net (decrease)/increase in cash and cash equivalents		**(264,566)**	486,297	224,833
Cash and cash equivalents at the beginning of the year	6	**1,431,477**	945,180	720,347
Cash and cash equivalents at the end of the year	6	**1,166,911**	1,431,477	945,180

The notes set out on pages 182 to 297 form an integral part of these financial statements.

1. INTRODUCTION

Principal activity. TBC Bank Group PLC ("TBCG" or "Group") is a public limited liability company, incorporated in England and Wales. TBCG held 99.88% of the share capital of JSC TBC Bank (hereafter the "Bank") as at 31 December 2018 (2017: 98.67%, 2016: 98.48%), thus representing the Bank's ultimate parent company. The Bank is a parent of a group of companies incorporated in Georgia and Azerbaijan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Group's list of companies is provided in Note 2.

The shares of TBCG ("TBCG Shares") were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities effective on 10 August 2016 (the "Admission", note 25). TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Bank Group PLC is 10029943. The Bank is the Group's main operating unit and it accounts for most of the Group's activities.

JSC TBC Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

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

The Bank has 146 (2017:154; 2016:120) branches within Georgia.

As of 31 December 2018, 31 December 2017 and 31 December 2016, the following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 December 2018, 31 December 2017 and 31 December 2016 the Group had no ultimate controlling party.

	% of ownership interest held as of 31 December		
Shareholders	**2018**	2017	2016
JPMorgan Asset Management	**8.40%**	9.21%	7.07%
European Bank for Reconstruction and Development	**8.18%**	8.38%	12.15%
Schroder Investment Management	**7.08%**	9.53%	7.98%
Mamuka Khazaradze*	**6.19%**	6.35%	-
Badri Japaridze*	**6.08%**	6.23%	-
Liquid Crystal International N.V. LLC	**5.64%**	5.78%	5.19%
Dunross & Co.	**5.51%**	-	-
TBC Holdings LTD	**-**	-	15.19%
Societe Generale SA	**-**	-	5.38%
Other**	**52.92%**	54.52%	47.04%
Total	**100.00%**	100.00%	100.00%

* Represents direct ownership of the shares for Mamuka Khazaradze and Badri Japaridze. Mamuka Khazaradze has beneficial ownership of 13.54% (2017: 13.87%) and Badri Japaride has beneficial ownership of 6.77% (2017: 6.93%).
** Other includes individual as well as corporate shareholders.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone statement of comprehensive income of TBCG is not presented as part of these accounts. TBCG's income for the year is disclosed within the separate statement of financial position and the separate statement of changes in equity.
The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the certain financial assets and liabilities (including derivative instruments) and certain class of premises and equipment which are measured at fair value. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

New and amended standards and interpretations. In these financial statements, the Group has applied IFRS 9 and IFRS 15, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments. IFRS 9 replaced IAS 39 for annual periods on or after 1 January 2018. The Group applied IFRS 9 using modified retrospective approach that means it has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 4, transition table.

Changes to classification and measurement. To determine their classification and measurement category, IFRS 9 requires all financial assets, except for equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.
The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition;
- Financial assets at FVTPL.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Group's classification of its financial assets and liabilities is explained in Note 4. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IFRS 9 Financial Instruments (continued)

Changes to the impairment calculation. The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 4. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 4.

IFRS 7. To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 36.

Reconciliations from opening to closing ECL allowances are presented in Note 9.

Going Concern. The Board of Directors of TBC Bank Group PLC has prepared these financial statements on a going concern basis. In making this judgement the management considered the Group's financial position, current intentions, profitability of operations and access to financial resources. The management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

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

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Subsidiaries and associates. The TBC Bank Group PCL holds 99.88%of the Bank as of 31 December 2018. The consolidated financial statements include the following principal subsidiaries:

	Proportion of voting rights and ordinary share capital held as of 31 December					
Company Name	**2018**	2017	2016	**Principal place of business or incorporation**	**Yearof incorporation**	**Industry**
JSC TBC Bank	**99.88%**	98.67%	98.48%	Tbilisi, Georgia	1992	Banking
Bank Republic Group	**0.00%**	0.00%	100.00%	Tbilisi, Georgia	1992	Banking
Ltd Merckhali Pirevli	**0.00%**	0.00%	100.00%	Tbilisi, Georgia	2009	Operating leasing
United Financial Corporation JSC	**98.67%**	98.67%	98.67%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	**99.61%**	99.61%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	**100%**	75.00%	75.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
Real Estate Management Fund JSC	**0.00%**	100.00%	100.00%	Tbilisi, Georgia	2010	Real estate management
TBC Invest LLC	**100.00%**	100.00%	100.00%	Ramat Gan,Israel	2011	PR and marketing
Index LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
BG LLC[2]	**0.00%**	0.00%	0.00%	Tbilisi, Georgia	2018	Real Estate
JSC TBC Insurance	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2014	Insurance
GE Commerce LTD	**100.00%**	0.00%	0.00%	Tbilisi, Georgia	2018	Retail Trade
Swoop JSC	**100.00%**	0.00%	0.00%	Tbilisi, Georgia	2010	Retail Trade

The Group has investments in the following associates:

	Proportion of voting rights and ordinary share capital held as of 31 December					
Company Name	**2018**	2017	2016	**Principal place of business or incorporation**	**Year of incorporation**	**Industry**
JSC CreditInfo Georgia	**21.08%**	21.08%	0.00%	Tbilisi, Georgia	2005	Financial intermediation
LLC Online Tickets	**26.00%**	26.00%	0.00%	Tbilisi, Georgia	2015	Computer and Software Services

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. On 6 May 2017 the Group completed the legal and operational process of merging JSC Bank Republic with TBC Bank.

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.[i]

	Proportion of voting rights and ordinary share capital held as of 31 December					
Company Name	**2018**	2017	2016	**Principal place of business or incorporation**	**Year of incorporation**	**Industry**
TBC Invest[3] International Ltd	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund[4]	**33.33%**	33.33%	33.33%	Tbilisi, Georgia	2007	Education
UFC International Ltd[5]	**0.00%**	80.00%	80.00%	British Virgin Islands	2001	Investment Vehicle
TBC Capital B.V.[6]	**0.00%**	0.00%	90.00%	Amsterdam, Netherlands	2007	Investment Vehicle

2 The Group has de-facto control over the subsidiary (control without legal form of ownership)
3 Dormant
4 Non-entrepreneurial (non-commercial) legal entity
5 Liquidated in 2018
6 Liquidated in 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Business combinations and Goodwill. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after the management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from the equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investments in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments – key measurement terms (continued). Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy). For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

Financial assets – classification and subsequent measurement – business model (continued). The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. The judgements applied by the Group in performing the SPPI test for its financial assets is as follows:

The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are generally measured at FVTPL. The Bank did not have such category of Loans to customers during 2018.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL");
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1. Refer to Note 36 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred;
- Stage 3: Credit impaired assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of credit impaired assets and definition of default is based on the occurrence of one or more loss events, described further in Note 36.

Change in ECL is recognized in statement of profit or loss with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type. The contractual amounts outstanding on loans to customers that have been written off partially or fully during 2018, but are still subject to enforcement activity was principal amount GEL 96 million, accrued interest GEL 18 million and accrued off balance penalty GEL 92 million.

Financial assets – derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa;

Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no schedule is replaced with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset is not substantially (10% test) different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the NBG are carried at AC and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Otherwise they are carried at FV.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group to settle overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Finance lease receivables (Investment in finance lease). Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. There is a 'three stage' approach which is based on the change in credit quality of financial lease receivables since initial recognition. Immediate loss that is equal to the 12-month ECL is recorded on initial recognition of financial leases that are not credit impaired. In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases. The company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at AC less ECL.

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprises of interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at at AC less ECL. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Due to credit institutions. Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met and is included in the Bank's "tier 2" capital. Subordinated debt is carried at AC.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. This is generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Premises and equipment. Premises and equipment, except for land, buildings and construction in progress, are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, land, buildings and construction in progress are carried at a revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation surplus is credited to the revaluation reserve for premises and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. In this case the increase is recognized in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognized in other comprehensive income and reduces revaluation reserve for premises and equipment accumulated in equity.

Depreciation on revalued buildings is charged to profit or loss. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years; and
Leasehold improvements	the term of the underlying lease or if not defined, not more than 7 years.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is amortised on a straight line basis over an expected useful life of 30 to 50 years. In case of any indication that the investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Investment property (continued). Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.
Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of 2 to 15 years.

Insurance and reinsurance receivables. Insurance and reinsurance receivables are recognised based on insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income. Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Insurance premiums are recognised as revenue (earned premiums) proportionally over the period of coverage of respective insurance contracts. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Liability adequacy test. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of recognised insurance liabilities net of related deferred acquisition costs. In performing the tests, current best estimates of future contractual cash flows, claims handling and administration costs in respect of claims, as well as investment income from assets backing such liabilities, are used. Where tests highlight a deficiency, insurance liabilities are increased with any deficiency being recognised in the consolidated statement of comprehensive income.

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Income taxes (continued). Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.
Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The group does not have Interest income on debt instruments at FVTPL during 2018.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign currency translation. The Group's presentation currency is the Georgian Lari. TBCG's and the Bank's functional currency is the Georgian Lari. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the territories where the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) Components of equity are translated at the historic rate; and
(iv) All resulting exchange differences are recognised in other comprehensive income.

After losing control over a foreign operation, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2018 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.3955 (2017: GBP 1 = GEL 3.5005; 2016: GBP 1 = GEL 3.2579); USD 1 = 2.6766 (2017: USD 1 = GEL 2.5922; 2016: USD 1 = GEL 2.6468); EUR 1 = 3.0701 (2017: EUR 1 = GEL 3.1044; 2016: EUR 1 = GEL 2.7940).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

Earnings per share. Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In calculating diluted EPS, non-vested ordinary shares are treated as outstanding on the grant date.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. Under the share-based compensation plan the Group receives services from the management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share based payment reserve. Upon award of shares to the scheme participants, respective share based payment reserve is transferred to share capital and share premium. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

Principles applied before 1 January 2018 (comparatives only)

Financial instruments – key measurement terms (comparatives only). Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis in case the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments – key measurement terms (continued) (comparatives only). Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 42.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of such unquoted equity instruments. Refer to Note 41.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position. Repayments for Loans are accounted for penalties in the first place, then accrued interest and after that principal amount.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments (comparatives only). Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus the transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or a loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Derecognition of financial assets (comparatives only). The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents (comparatives only). Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Investment securities available for sale (comparatives only). This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in Other Comprehensive Income ("OCI") until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from OCI to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") arising after the initial recognition of investment securities available for sale.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and reclassified from OCI. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss for the year.

Sale and repurchase agreements (comparatives only). Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Loans and advances to customers (comparatives only). Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, financial asset is derecognized and the new asset is initially recognised at its fair value.

Bonds carried at amortised cost (comparatives only). Investment securities that the Group intends to hold for an indefinite period and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices have been classified as available for sale investments in the financial statements for the year ended 31 December 2014. In 2015 the Group has reassessed its intention with regard to some of the securities under this category and has identified certain investments that the Group has both the intention and ability to hold to maturity. Due to the fact that transactions for such securities do not take place with sufficient frequency and volume to provide pricing information on an ongoing basis the securities are not considered to be quoted in an active market and were reclassified to loans and receivables rather than held to maturity investments. These securities are presented in the balance sheet under caption bonds carried at amortised cost.

When an available-for-sale financial asset with fixed maturity is reclassified to loans and receivables, the fair value of the financial asset on that date becomes its new amortised cost. Any previous gain or loss on that asset that has been recognised directly in other comprehensive income is amortised to profit and loss over the investment's remaining life using the effective interest method.

Impairment of financial assets carried at amortised cost (comparatives only). Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that happened after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group classifies its borrowers as significant and non-significant ones for impairment allowance estimation purposes and assesses for impairment individually or collectively.

Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed borrowers in order to ensure that loss event is identified as early as possible.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Bank assesses the borrowers on an individual basis and measures the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the exposure's original effective interest rate for fixed rate loans or current effective interest rate for variable rate loans. The Bank considers two types of sources for recoveries: cash recoveries and/or collateral recovery. For cash recoveries the estimated recoverable amount is equal to the present value of the estimated future cash flows. Collateral recoveries reflect the cash flows that may result from collateral foreclosure. The Bank uses its best estimates to assess future recoveries, applying scenario analysis and taking into account all relevant information available at the reporting date including adverse changes in general macroeconomic environment or the industry the borrower operates in.

If the Group determines that there is no objective evidence that an individually assessed financial asset incurred in impairment whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For collective assessment purposes 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: type of counterparty (individual vs. business), type of product, past-due status of the exposure, restructuring status and type of collateral.

In order to calculate impairment allowance for collectively assessed loans pools, the Bank estimates the following risk parameters: probability of default, cure rate, recovery rate, survival rate and loss give default, based on historical experience. In case of a change in either the internal or external environment and historical data no longer reflect the current situation, the Bank adjusts risk parameters on the basis of current observable data to reflect the effects of present conditions that did not affect past periods, and to remove the effects of past conditions that do no longer exist.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Impairment of financial assets carried at amortised cost (comparatives only) (continued). The Bank reverses previously recognised impairment loss if, once identified, the amount of the impairment loss decreases and the decrease is related to an objective event. The previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. In order to reverse provisions for individually significant borrowers there should be objective evidence that the borrowers' financial standing has improved or there is improvement in collateral coverage. For collectively assessed loans the Bank applies the notion of "quarantine period" defined as period necessary for an exposure to satisfy performing loans criteria's in order to be reclassified in a performing loans pool.

Impairment losses on loans and advances and finance lease receivables (comparatives only). The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group conclude whether there is, or not, any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. When scheduling future cash flows the management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 11,393 as at 31 December 2017 (2016: GEL 11,251 thousand) and additional charge for impairment of finance lease receivables of GEL 63 thousand as at 31 December 2017 (2016: GEL 57 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 1,454 thousand as at 31 December 2017 (2016: GEL 2,701 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 14 thousand as at 31 December 2017 (2016: GEL 9 thousand), respectively.

Credit related commitments (comparatives only). The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitments, except for those to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees (comparatives only). are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are recorded off-balance sheet at initiation. Fee income is recognized as earned over the lifetime of a respective contract. . At the end of each reporting period, the provision for performance guarantee contracts are measured at the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts. Such amounts are recognised as loans and receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Finance lease receivables (Investment in finance lease) (comparatives only). Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that took place after the initial recognition of investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

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 36. 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. 20% decrease in SICR thresholds would increase impairment allowance on loans and advances by GEL 2,056 thousand and would result in a change of the Bank's cost of credit risk ratio by 2 basis points. 10% increase in Stage 2 exposures would increase impairment allowance on loans and advances by GEL 2,723 thousand and would result in a change of the Bank's cost of credit risk ratio by 3 basis points.

Risk parameters: Probability of default (PD) and Loss given default (LGD) parameters are one of the key drivers of expected credit losses. A 10% increase (decrease) in PD estimates at 31 December 2018 would increase (decrease) impairment allowance on loans and advances by GEL 18,876 thousand (GEL 18,942 thousand) and would result in a change of the Bank's cost of credit risk ratio by 21 (21) basis points. As for the LGD ratio, a 10% increase (decrease) in LGD estimates at 31 December 2018 would increase (decrease) impairment allowance on loans and advances by GEL 28,185 thousand (GEL 28,012 thousand) and would result in a change of the Bank's cost of credit risk ratio by 31 (31) basis points.

Macro-economic 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). Weight for the baseline scenario is set to 50% and 25% weight is applied for each less likely scenarios.

To set the weight assigned to upside forward looking macro-economic set of assumptions to 15% and respectively increase the weight of the downside level assumptions from current 25% to 35% would increase impairment allowance on loans and advances by GEL 4,860 thousand and would result in a change of the Bank's cost of credit risk ratio by 5 basis points as at December 2018.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of IFRS 9 "Financial Instruments". The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 2. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 2.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		Carrying value per IAS 39 (closing balance at	Remeasurement	Carrying value per IFRS 9 (opening balance at
In thousands of GEL	IAS 39	IFRS 9	31 December 2017)	ECL Effect	1 January 2018)
Cash and cash equivalents	Loans and receivables	Amortised cost	**1,431,477**	**491**	**1,430,986**
Mandatory cash balances with the National Bank of Georgia	Loans and receivables	Amortised cost	**1,033,818**	**-**	**1,033,818**
Investments in debt securities	Available-for-sale	Fair value through other comprehensive income	**656,234**	**1,051**	**655,183**
Investments in debt securities	Loans and receivables	Amortised cost	**449,538**	**628**	**448,910**
Total investments in debt securities			**1,105,772**	**1,679**	**1,104,093**
Investments in equity securities	Available-for-sale	Fair value through other comprehensive income	**1,704**	**-**	**1,704**
Total investments in equity securities			**1,704**	**-**	**1,704**
Due from other banks	Loans and receivables	Amortised cost	**39,643**	**36**	**39,607**
Loans and advances to customers	Loans and receivables	Amortised cost	**8,325,353**	**63,731**	**8,261,622**
Total loans and advances to customers			**8,325,353**	**63,731**	**8,261,622**
Investment in finance lease	Finance lease receivables	Finance lease receivables	**143,836**	**739**	**143,097**
Total Investment in Finance Lease			**143,836**	**739**	**143,097**
Other financial assets	Loans and receivables	Amortised cost	**146,144**	**1,019**	**145,125**
Total other financial assets			**146,144**	**1,019**	**145,125**
Total financial assets			**12,227,747**	**67,695**	**12,160,052**

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

In addition to the GEL 67,700 thousands increase in total provision level for financial assets as at 1 January 2018, there has been a release of provision level for credit related commitments and performance guarantee contracts upon transition to the IFRS 9 on 1 January 2018 in amount of GEL 4,100 thousands. As a result, total provision at the Group level increased by GEL 63,600 thousands as at 1 January 2018. There were no material changes in amounts of financial liabilities. The impact GEL 63,600 thousands was recognized as a reduction of retained earnings in the consolidated financial statements from the adoption of the new standard on 1 January 2018. Related tax amount has been recognised according to local tax legislation and was considered during reassessment during deferred tax amount as of the reporting date.

Cash and cash equivalents. All classes of cash and cash equivalents as disclosed in Note 6 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The Group recognised credit loss allowance as disclosed above.

(a) Due from other banks. All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(b) Investments in debt securities. The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:

- those previously classified as AFS and now classified as measured at FVOCI; and
- those previously classified as L&R measurement category now classified as measured at AC.

Investments in equity securities. The Group has elected to irrevocably designate strategic investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of. All other equity investments were classified at FVTPL as required by IFRS 9.

Loans and advances to customers. All classes of Loans and advances to customers' balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9. The Group does not hold such kind of portfolio of loans and advances to customers that failed to meet the SPPI requirement.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

In thousands of GEL	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Effect Remeasu-rement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and receivables measurment category			
- Cash and cash equivalents	**-**	**491**	**491**
- Investment in debt securities	**-**	**1,679**	**1,679**
- Due from other Banks	**-**	**36**	**36**
- Loans and advances to customers	**227,864**	**63,731**	**291,595**
- Investment in finance lease	**1,498**	**739**	**2,237**
- Other financial assets	**18,020**	**1,019**	**19,039**
Credit related commitments and performance guarantees	**13,200**	**(4,100)**	**9,100**

At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Group has adopted IFRS 15, Revenue from Contracts with Customers, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Group.

The Group analysed its main revenue streams under the scope of IFRS 15 which are fee and commission income from card operations, cash and settlement transactions, other operating income generated from sales of inventory, investment property, and equipment. Those revenue streams were not affected by transition to IFRS 15 as there were no material changes to the revenue recognition process of applicable revenue streams, the Group had already been recognizing revenue over period of time, in line with the fulfilment of the respective performance obligations. The Group will continue to accrue over period of time those incomes that are earned from services that are provided over a period of time.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach);
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5. NEW ACCOUNTING PRONOUNCEMENTS

Minor amendments to IFRSs. The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2018 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

Major new IFRSs. IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

5. NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019) (continued). IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of GEL 61,043 thousand against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 38 to this liability is as follows:

In thousands of GEL	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 38)	**11,022**
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	**58,573**
- Effect of discounting to present value	**(8,552)**
Total effect on the Right of the use asset and Lease Liability	**61,043**

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be 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 is currently assessing the impact of the interpretation on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

6. CASH AND CASH EQUIVALENTS

In thousands of GEL	**2018**	2017	2016
Cash on hand	**491,928**	419,605	402,532
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	**118,749**	371,342	135,557
Correspondent accounts and overnight placements with other banks	**371,902**	571,078	406,319
Placements with and receivables from other banks with original maturities of less than three months	**184,429**	69,452	772
Total gross amount of cash and equivalents	**1,167,008**	1,431,477	945,180
Less: Credit loss allowance	**(97)**	-	**-**
Total cash and cash equivalents	**1,166,911**	1,431,477	945,180

95% of the correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2017: 97%; 31 December 2016: 96%).

As of 31 December 2018 GEL 13,383 thousand was placed on interbank term deposits with one non-OECD bank and GEL 171,046 thousand with two OECD bank (31 December 2017: GEL 12,421 thousand with one non-OECD bank and GEL 57,031 thousand with one OECD bank; 31 December 2016: GEL 772 thousand with four non-OECD banks).

Interest rate analysis of cash and cash equivalents is disclosed in Note 36.

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	**2018**	2017	2016
AA	**5,883**	-	-
A+	**249,802**	271,366	78,324
A	**4,628**	62,434	258,025
A-	**-**	213,247	27,997
BBB+	**93,450**	3,235	-
BBB	**-**	383	23,174
BBB-	**873**	45	464
BB+	**241**	300	1,147
BB	**208**	224	-
BB-	**16,394**	15,919	3,039
B+	**381**	442	-
B	**42**	185	2,288
Not rated	**-**	3,298	11,861
Total	**371,902**	571,078	406,319

Credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

In thousands of GEL	**2018**	2017	2016
AAA	**10,021**	-	-
A	**-**	-	772
A-	**161,025**	-	-
BBB+	**-**	57,031	-
B+	**13,383**	-	-
Not rated	**-**	12,421	-
Total	**184,429**	69,452	772

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, after introduction of IFRS 9, as of January 2018, for those financial institutions which are not assigned credit ratings country ratings are used. As of 31 December 2018 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2017: nil; 2016: nil). For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. As the ECL for year 2018 is measured per IFRS 9, it is not comparable to the prior periods. The material Investing transaction that did not require the use of cash and cash equivalents, and were excluded from the statement of cash flows represents the conversion of JSC TBC Bank's shares. For more details regarding the transaction please refer to note 25.

7. DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2018, 2017 and 2016. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

In thousands of GEL	**2018**	2017	2016
AA	**8,913**	-	-
A	**-**	8,632	13,210
BBB+	**80**	78	79
BBB	**3,838**	-	5,541
BB+	**4,388**	-	-
BB-	**26,238**	4,041	801
B+	**3,194**	661	-
B	**665**	1,520	5,073
Not rated	**-**	24,711	21
Total	**47,316**	39,643	24,725

As of 31 December 2018 the TBC Bank had one placement with one bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2017: one placement with one bank; 2016: nil). The total aggregated amount of these placement was GEL 19,311 thousand (2017: GEL 23,147 thousand; 2016: nil) or 40.8% of the total amount due from other (2017: 58%; 2016: nil).

As of 31 December 2018 GEL 15,725 thousand, (2017: GEL 13,121 thousand; 2016: GEL 19,511 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 42 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 36. The ECL for year 2018 is measured per IFRS 9 and it is not comparable to the prior periods.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2018 is GEL 39 thousand.

8. MANDATORY CASH BALANCES WITH THE NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 6.0%, 0.8% and (0.6%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2018 (2017: 5.0%, 0.6% and (0.4%) in GEL, USD and EUR respectively; 2016: 5.0%, 0.0% and (0.4%) in GEL, USD and EUR respectively).

In August 2018 Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) at 'BB-' with a positive outlook. The issue ratings on Georgia's long-term senior unsecured foreign and local-currency bonds are also affirmed at 'BB-'. The Country Ceiling is affirmed at 'BB ' and the Short-term Foreign and Local-Currency IDRs at 'B'.

9. LOANS AND ADVANCES TO CUSTOMERS

In thousands of GEL	**2018**	2017	2016
Corporate loans	**3,177,289**	2,475,392	2,062,229
Consumer loans	**1,989,516**	2,163,425	1,872,142
Mortgage loans	**2,709,183**	2,069,728	1,808,434
Loans to micro, small and medium enterprises	**2,496,594**	1,844,672	1,615,920
Total gross loans and advances to customers at AC	**10,372,582**	8,553,217	7,358,725
Less: credit loss allowance	**(334,130)**	(227,864)	(225,023)
Total carrying amount of loans and advances to customers at AC	**10,038,452**	8,325,353	7,133,702

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

As of 31 December 2018 loans and advances to customers carried at GEL 228,454 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2017: GEL 246,267 thousand; 2016: GEL 120,093 thousand).

In 2018, the Group has reassessed its definition of segments as disclosed in Note 28. Some of the clients were reallocated to different segments. Comparative information as of 31 December 2017 has not been updated due to impracticability.

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period

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 2018	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	(93,957)	100,702	(6,745)	-	(1,811)	2,185	(374)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,395)	(85,409)	88,804	-	(32)	(8,341)	8,373	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	129,019	(126,886)	(2,133)	-	3,908	(3,908)	-	-
New originated or purchased	1,787,999	-	-	1,787,999	22,031	-	-	22,031
Derecognised during the period	(873,776)	(53,958)	(14,720)	(942,454)	(9,217)	(3,140)	(21,293)	(33,650)
Net repayments	(145,691)	(25,028)	(39,857)	(210,576)	-	-	-	-
Other movements	2	-	-	2	-	-	-	-
Resegmentation	36,699	488	-	37,187	283	-	-	283
Net Write-offs	-	-	(321)	(321)	-	-	3,269	3,269
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	(3,430)	3,162	21,877	21,609
FX movements	24,875	2,887	2,298	30,060	-	-	-	-
At 31 December 2018	**2,903,313**	**138,715**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises	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 2018	**1,630,103**	**149,799**	**64,770**	**1,844,672**	**9,894**	**11,890**	**24,468**	**46,252**
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	(142,901)	152,463	(9,562)	-	(13,479)	15,630	(2,151)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(83,887)	(21,578)	105,465	-	(6,489)	(2,130)	8,619	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,601	(30,683)	(918)	-	2,973	(2,552)	(421)	-
New originated or purchased	1,360,236	-	-	1,360,236	21,595	-	-	21,595
Derecognised during the period	(528,289)	(61,702)	(49,272)	(639,263)	(4,388)	(2,679)	(3,210)	(10,277)
Net repayments	(146,754)	(20,622)	788	(166,588)	-	-	-	-
Other movements	(21)	6	349	334	-	-	-	-
Resegmentation	75,069	23,747	1,725	100,541	4,377	8,457	1,611	14,445
Net Write-offs	-	-	(22,004)	(22,004)	-	-	(5,664)	(5,664)
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	4,781	(6,245)	5,997	4,533
FX movements	15,460	1,727	1,479	18,666	9	8	113	130
At 31 December 2018	**2,210,617**	**193,157**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	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 2018	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	(244,838)	253,057	(8,219)	-	(34,737)	38,429	(3,692)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(97,030)	(64,020)	161,050	-	(28,073)	(16,142)	44,215	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	73,142	(71,235)	(1,907)	-	10,012	(9,115)	(897)	-
New originated or purchased	1,359,515	109	20	1,359,644	65,303	-	-	65,303
Derecognised during the period	(794,286)	(96,300)	(52,401)	(942,987)	(23,551)	(13,147)	(23,220)	(59,918)
Net repayments	(339,487)	(34,337)	32,155	(341,669)	-	-	-	-
Other movements	1,033	(77)	1,636	2,592	-	-	-	-
Resegmentation	(109,359)	(24,193)	(1,725)	(135,277)	(4,886)	(8,391)	(1,611)	(14,888)
Net Write-offs	-	-	(122,095)	(122,095)	-	-	(100,885)	(100,885)
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	16,760	3,298	92,489	112,547
FX movements	4,765	760	356	5,881	9	4	(19)	(6)
At 31 December 2018	**1,641,978**	**265,687**	**81,851**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	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 2018	**1,839,707**	**189,887**	**40,136**	**2,069,730**	**1,371**	**9,336**	**12,102**	**22,809**
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	(144,596)	156,655	(12,059)	-	(2,118)	5,254	(3,136)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(14,734)	(20,146)	34,880	-	(1,700)	(1,248)	2,948	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	50,917	(50,040)	(877)	-	1,717	(1,466)	(251)	-
New originated or purchased	1,367,848	-	-	1,367,848	3,035	-	-	3,035
Derecognised during the period	(480,297)	(67,350)	(8,657)	(556,304)	(801)	(2,083)	(1,575)	(4,459)
Net repayments	(174,623)	(18,409)	(8,435)	(201,467)	-	-	-	-
Other movements	211	71	1,807	2,089	-	-	-	-
Resegmentation	(2,385)	(61)	-	(2,446)	(13)	(8)	-	(21)
Net Write-offs	-	-	(3,576)	(3,576)	-	-	1,963	1,963
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	195	(632)	1,969	1,532
FX movements	28,556	3,803	950	33,309	9	13	6	28
At 31 December 2018	**2,470,604**	**194,410**	**44,169**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Movements in the provision for loan impairment during 2018 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 31 December 2017	**49,626**	**121,538**	**17,577**	**39,123**	**227,864**
IFRS 9 effect	**18,337**	**33,032**	**5,232**	**7,129**	**63,730**
Credit Loss allowance as of 1 January 2018	**67,963**	**154,570**	**22,809**	**46,252**	**291,594**
Resegmentation effect	**446**	**(14,889)**	**(21)**	**14,464**	**-**
Credit loss allowance during the year	**13,416**	**139,143**	**5,648**	**32,194**	**190,401**
Amounts written off during the period as uncollectible	**(320)**	**(122,095)**	**(3,576)**	**(22,004)**	**(147,995)**
Effect of translation to presentation currency	**-**	**(6)**	**28**	**108**	**130**
Credit Loss allowance as of 31 December 2018	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**

Loans and advances to customers written off in 2018 included loans to customers in the gross amount of GEL 43,422 thousand issued in 2018, out of which, none was previously issued performance guarantee transformed into loan in 2018 and GEL 104,573 thousand issued in previous years.

Movements in the provision for loan impairment during 2017 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 1 January 2017	90,100	73,730	23,602	37,591	225,023
(Recovery of)/provision for impairment during the year	(11,088)	130,333	384	21,521	141,150
Amounts written off during the year as uncollectible	(29,386)	(82,601)	(6,507)	(20,265)	(138,759)
Effect of translation to presentation currency	-	76	98	276	450
Provision for loan impairment as of 31 December 2017	49,626	121,538	17,577	39,123	227,864

Loans and advances to customers written off in 2017 included loans to customers in the gross amount of GEL 21,056 thousand issued in 2017, a previously issued performance guarantee of GEL 6 thousand which was transformed into loan in 2017 and GEL 117,697 thousand issued in previous years.

Movements in the provision for loan impairment during 2016 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 1 January 2016	108,050	42,433	13,135	30,525	194,143
Resegmentation effect	-	10,092	-	(10,092)	-
Total provision for impairment during the year:	(11,841)	71,369	15,108	31,136	105,772
Provision for impairment charged to income statement during the year	(48,948)	60,438	12,572	25,140	49,202
Recoveries of loans previously written off	37,107	10,931	2,536	5,996	56,570
Amounts written off during the year as uncollectible	(6,109)	(50,121)	(4,580)	(13,755)	(74,565)
Effect of translation to presentation currency	-	(43)	(61)	(223)	(327)
Provision for loan impairment as of 31 December 2016	90,100	73,730	23,602	37,591	225,023

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans and advances to customers written off in 2016 included loans to customers in the gross amount of GEL 9,830 thousand issued in 2016, a previously issued performance guarantee of GEL 0.14 thousand which was transformed into loan in 2016 and GEL 64,735 thousand issued in previous years.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 36.

In 2018 the Group applied the portfolio provisioning methodology prescribed by IFRS 9. For details please refer to Note 2. For the periods before 1 January 2018, the Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and it created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The table below contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans. For details please refer to Note 2.

For the periods before 1 January 2018, the Group's policy for credit risk management purposes was to classify each loan as 'neither past due nor impaired', 'past due but not impaired', 'individually assessed impaired loans' and 'collectively assessed impaired loans'. The pool of 'neither past due nor impaired loans' included exposures that were not overdue and were not classified as impaired. 'Past due but not impaired' loans included overdue performing loans but with no objective evidence of impairment identified. The classification included as well triggered loans that were not impaired because the current value of the expected cash and collateral recoveries were sufficient for full repayment. 'Individually assessed impaired loans' included exposures which were assessed for impairment on an individual basis, and an ad-hoc impairment allowance was created. 'Collectively assessed impaired loans' included exposures for which objective evidence of impairment was identified and the respective collective impairment allowance was created.

The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

Individually assessed impaired loans' include exposures which are impaired and individual impairment is applied based on individual assessment. 'Collectively assessed impaired loans' include exposures for which default triggers were identified and the respective collective impairment allowance was created. Both individually and collectively impaired loans are classified as stage 3 exposures. The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2018:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	2,712,885	6,417	-	2,719,302
- Low	189,086	130,798	-	319,884
- Moderate	1,344	1,238	-	2,582
- High	-	260	-	260
- Default	-	-	135,261	135,261
Gross carrying amount	2,903,315	138,713	135,261	3,177,289
Credit loss allowance	(32,940)	(4,994)	(43,571)	(81,505)
Carrying amount	2,870,375	133,719	91,690	3,095,784
Consumer loans risk category				
- Very low	1,118,057	3,373	-	1,121,430
- Low	349,406	19,874	-	369,280
- Moderate	174,530	212,707	-	387,237
- High	-	29,719	-	29,719
- Default	-	-	81,850	81,850
Gross carrying amount	1,641,993	265,673	81,850	1,989,516
Credit loss allowance	(42,903)	(59,245)	(54,575)	(156,723)
Carrying amount	1,599,090	206,428	27,275	1,832,793
Mortgage loans risk category				
- Very low	2,268,634	20,051	-	2,288,685
- Low	177,274	62,060	-	239,334
- Moderate	24,695	104,550	-	129,245
- High	-	7,749	-	7,749
- Default	-	-	44,170	44,170
Gross carrying amount	2,470,603	194,410	44,170	2,709,183
Credit loss allowance	(1,697)	(9,165)	(14,026)	(24,888)
Carrying amount	2,468,906	185,245	30,144	2,684,295

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to MSME risk category				
- Very low	1,865,077	16,285	-	1,881,362
- Low	324,306	72,742	-	397,048
- Moderate	21,342	84,520	-	105,862
- High	-	19,502	-	19,502
- Default	-	-	92,820	92,820
Gross carrying amount	2,210,725	193,049	92,820	2,496,594
Credit loss allowance	(19,301)	(22,379)	(29,334)	(71,014)
Carrying amount	2,191,424	170,670	63,486	2,425,580

For description of the credit risk grading used in the tables above refer to Note 36.

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Analysis by credit quality of loans outstanding as of 31 December 2017 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Neither past due nor impaired					
- Borrowers with credit history over two years	1,679,029	1,556,495	1,679,495	1,134,503	6,049,522
- New borrowers	708,038	479,433	338,456	619,528	2,145,455
Total neither past due nor impaired	2,387,067	2,035,928	2,017,951	1,754,031	8,194,977
Past due but not impaired					
- 1 to 30 days overdue	-	41,088	15,089	31,598	87,775
- 31 to 90 days overdue	-	26,433	10,620	13,395	50,448
- 91 to 180 days overdue	23,029	165	-	-	23,194
- 181 to 360 days overdue	-	116	-	-	116
- More than 360 days overdue	-	48	-	-	48
Total past due but not impaired	23,029	67,850	25,709	44,993	161,581
Individually assessed impaired loans					
- Not overdue	39,443	-	-	2,420	41,863
- 1 to 30 days overdue	10,351	-	-	-	10,351
- 31 to 90 days overdue	4,455	-	-	-	4,455
- 91 to 180 days overdue	48	-	-	-	48
- 181 to 360 days overdue	-	-	-	-	-
- More than 360 days overdue	8,740	-	-	-	8,740
Total individually assessed impaired loans	63,037	-	-	2,420	65,457
Collectively assessed impaired loans					
- Not overdue	1,266	6,669	5,912	6,744	20,591
- 1 to 30 days overdue	668	2,605	5,097	2,897	11,267
- 31 to 90 days overdue	-	4,078	5,595	3,542	13,215
- 91 to 180 days overdue	-	28,609	2,561	10,009	41,179
- 181 to 360 days overdue	-	10,246	4,335	8,969	23,550
- More than 360 days overdue	325	7,440	2,568	11,067	21,400
Total collectively assessed impaired loans	2,259	59,647	26,068	43,228	131,202
Total loans and advances to customers (before impairment)	2,475,392	2,163,425	2,069,728	1,844,672	8,553,217
Total provision	(49,626)	(121,538)	(17,577)	(39,123)	(227,864)
Total loans and advances to customers	2,425,766	2,041,887	2,052,151	1,805,549	8,325,353

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Analysis by credit quality of loans outstanding as of 31 December 2016 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Neither past due nor impaired					
- Borrowers with credit history over two years	1,279,999	1,030,204	1,203,461	836,773	4,350,437
- New borrowers	647,613	738,255	557,777	689,106	2,632,751
Total neither past due nor impaired	1,927,612	1,768,459	1,761,238	1,525,879	6,983,188
Past due but not impaired					
- 1 to 30 days overdue	10,369	38,214	7,565	31,904	88,052
- 31 to 90 days overdue	1,714	21,205	8,241	14,269	45,429
- 91 to 180 days overdue	-	146	-	227	373
- 181 to 360 days overdue	-	91	-	-	91
- More than 360 days overdue	2,864	28	-	-	2,892
Total past due but not impaired	14,947	59,684	15,806	46,400	136,837
Individually assessed impaired loans					
- Not overdue	101,273	-	195	2,832	104,300
- 1 to 30 days overdue	1,059	-	-	-	1,059
- 31 to 90 days overdue	7,966	-	-	-	7,966
- 91 to 180 days overdue	-	-	-	88	88
- 181 to 360 days overdue	2,455	-	34	436	2,925
- More than 360 days overdue	4,000	-	167	-	4,167
Total individually assessed impaired loans	116,753	-	396	3,356	120,505
Collectively assessed impaired loans					
- not overdue	776	5,493	7,129	5,301	18,699
- 1 to 30 days overdue	-	1,488	2,316	1,316	5,120
- 31 to 90 days overdue	908	2,622	2,443	5,223	11,196
- 91 to 180 days overdue	-	21,779	6,569	10,074	38,422
- 181 to 360 days overdue	1,233	7,660	8,371	11,291	28,555
- More than 360 days overdue	-	4,957	4,166	7,080	16,203
Total collectively assessed impaired loans	2,917	43,999	30,994	40,285	118,195
Total loans and advances to customers (before impairment)	2,062,229	1,872,142	1,808,434	1,615,920	7,358,725
Total provision	(90,100)	(73,730)	(23,602)	(37,591)	(225,023)
Total loans and advances to customers	1,972,129	1,798,412	1,784,832	1,578,329	7,133,702

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2018		31 December 2017		31 December 2016	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**4,677,328**	**45%**	4,198,386	49%	3,721,450	51%
Energy & Utilities	**776,204**	**7%**	719,854	9%	540,116	7%
Hospitality & Leisure	**759,605**	**7%**	450,741	5%	319,497	4%
Food Industry	**570,810**	**6%**	524,286	7%	301,290	4%
Real Estate	**564,197**	**5%**	453,415	5%	252,112	3%
Trade	**445,290**	**4%**	394,495	5%	447,541	6%
Agriculture	**418,432**	**4%**	269,844	3%	212,148	3%
Construction	**359,549**	**3%**	233,771	3%	210,888	3%
Pawn Shops	**278,384**	**3%**	279,410	3%	305,031	4%
Communication	**229,522**	**2%**	114,032	1%	45,864	1%
Healthcare	**220,756**	**2%**	172,255	2%	182,131	3%
Services	**180,045**	**2%**	108,186	1%	109,187	1%
Automotive	**156,241**	**2%**	160,795	2%	144,157	2%
Metals and Mining	**100,855**	**1%**	84,419	1%	62,464	1%
Transportation	**80,075**	**1%**	96,427	1%	89,467	1%
Financial Services	**71,617**	**1%**	87,501	1%	188,646	3%
Other	**483,672**	**5%**	205,400	2%	226,736	3%
Total loans and advances to customers (before impairment)	**10,372,582**	**100%**	8,553,217	100%	7,358,725	100%

As of 31 December 2018 the Group had 170 borrowers (2017: 142 borrowers; 2016: 112 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 3,054,314 thousand (2017: GEL 2,437,750 thousand; 2016: GEL 1,900,916 thousand) or 29.4% of the gross loan portfolio (2017: 28.5%; 2016: 25.8%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate;
- Movable property including fixed assets, inventory and precious metals;
- Financial assets including deposits, stocks, and third party guarantees.

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

The effect of collateral as of 31 December 2018:

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	**2,857,207**	**6,516,492**	**320,082**	**47,249**
Consumer loans	**1,213,594**	**2,543,720**	**775,922**	**34,242**
Mortgage loans	**2,663,362**	**5,404,518**	**45,821**	**28,934**
Loans to micro, small and medium enterprises	**2,340,847**	**5,324,290**	**155,747**	**68,110**
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

9. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as of 31 December 2017:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	2,129,927	5,194,598	345,465	97,386
Consumer loans	908,387	2,132,566	1,255,038	25,781
Mortgage loans	2,042,001	4,429,201	27,727	17,189
Loans to micro, small and medium enterprises	1,688,438	3,970,931	156,234	146,949
Total	6,768,753	15,727,296	1,784,464	287,305

The effect of collateral as of 31 December 2016:

	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	1,849,202	5,683,279	213,027	109,076
Consumer loans	1,040,644	2,761,580	831,498	28,102
Mortgage loans	1,780,553	4,694,003	27,881	16,360
Loans to micro, small and medium enterprises	1,479,200	4,959,947	136,720	131,967
Total	6,149,599	18,098,809	1,209,126	285,505

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

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 collaterals such as movable assets and precious metals.

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 GEL625,719 thousand, GEL 527,498 thousand and GEL 608,058 thousand as of 31 December 2018, 2017 and 2016 respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 42 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 36. Information on related party balances is disclosed in Note 44.

Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 196 thousand.

10. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Figures below represent Investment securities measured at FVOCI under IFRS 9 since 1 January 2018, previously classified under available-for-sale category under IAS 39. The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

In thousands of GEL	**2018**	2017	2016
Corporate bonds	**549,477**	328,761	150,073
Ministry of Finance of Georgia Treasury Bills	**373,447**	319,745	241,810
Certificates of Deposit of the National Bank of Georgia	**14,985**	7,728	36,002
Georgian Government notes	**-**	-	1,016
Netherlands Government Bonds	**66,760**	-	-
Less: Credit loss allowance	**(1,136)**	-	-
Total debt securities	**1,003,533**	656,234	428,901
Corporate shares – unquoted	**1,706**	1,704	1,802
Total investment securities measured at fair value through other comprehensive income	**1,005,239**	657,938	430,703

All debt securities except for corporate bonds and Netherlands Government Bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as assigned by international rating agencies in August 2018). 63.0% of corporate bonds are issued by triple A rated international financial institutions, 21.9% of corporate bonds are issued by A- rated international financial institutions and 4.8% corporate bonds are issued at BB- rating, whereas 9.8% and 0.5% of corporate bonds are issued by B+ and B rated corporations respectively. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. At 1 January 2018, the Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. In 2017, these investments were classified as AFS. Refer to Note 4 for details. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

As of 31 December 2018 investment securities measured at fair value through other comprehensive income carried at GEL 613,466 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2017: GEL 424,892 thousand; 2016: GEL 205,216 thousand). Refer to Note 18. None of the debt securities measured at fair value through other comprehensive income are overdue or impaired. As of 31 December 2018 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

	Nature of business	**Country of registration**	**Carrying value as of 31 December**		
In thousands of GEL			**2018**	2017	2016
JSC GRDC	Property development	Netherlands Antilles	**365**	365	365
Georgian Stock Exchange	Stock exchange	Georgia	**1,004**	1,004	1,004
Other			**337**	335	433
Total			**1,706**	1,704	1,802

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

In thousands of GEL	Note	**2018**	2017	2016
Carrying amount as of 1 January		**657,938**	430,703	307,310
Business Combination		**-**	-	153,004
Purchases		**717,630**	560,226	143,783
Disposals		**(14,781)**	-	(14,679)
Redemption at maturity		**(370,571)**	(345,748)	(167,115)
Revaluation		**6,949**	5,489	522
Interest income accrued	29	**57,057**	43,735	25,707
Interest income received		**(48,442)**	(36,214)	(17,900)
Impairment related to investment in equity security		**-**	-	(11)
Effect of translation to presentation currency		**595**	(158)	82
Transfer to investments in associate		**-**	(95)	-
Credit loss allowance*		**(1,136)**	-	-
Carrying amount as of 31 December		**1,005,239**	657,938	430,703

**For the purpose of ECL measurement, securities balances are included in Stage 1. Refer to Note 36 for the ECL measurement*

11. BONDS CARRIED AT AMORTISED COST

In thousands of GEL	**2018**	2017	2016
Ministry of Finance Treasury Bills	**654,618**	424,876	323,478
Certificates of Deposit of the National Bank of Georgia	**-**	24,662	43,408
Georgian Government notes	**-**	-	6,070
Corporate bonds	**500**	-	-
Less: Credit loss allowance	**(915)**	-	-
Total bonds carried at amortised cost	**654,203**	449,538	372,956

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as per international rating agencies in August 2018).

The movements in bonds carried at amortised cost are as follows:

In thousands of GEL	**2018**	2017	2016
Carrying amount as of 1 January	**449,538**	372,956	372,092
Purchases	**396,217**	307,248	304,109
Redemption at maturity	**(200,658)**	(242,380)	(314,231)
Interest income accrual	**40,625**	32,328	30,714
Interest income received	**(30,611)**	(20,601)	(19,740)
Effect of translation to presentation currency	**7**	(13)	12
Credit loss allowance	**(915)**	-	-
Carrying amount as of 31 December	**654,203**	449,538	372,956

For the disclosure of bonds' fair value carried at amortised cost refer to Note 42. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 36.

As of 31 December 2018 bonds carried at amortised cost of GEL 212,337 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2017: GEL 223,860 thousand; 2016: GEL 273,311 thousand). Refer to Note 18.

None of the bonds carried at amortised cost as of 31 December 2018, 31 December 2017 and 31 December 2016 were either overdue or impaired.

For the purpose of ECL measurement securities balances are included in Stage 1. Refer to Note 36 for the ECL measurement approach. The ECL for year 2018 is measured per IFRS 9 and it is not comparable to the prior periods.

12. OTHER FINANCIAL ASSETS

In thousands of GEL	**2018**	2017	2016
Receivables from sales of repossessed assets	**43,671**	6,619	10,603
Receivables on guarantees / letters of credit	**36,869**	20,983	18,215
Prepayments for purchase of leasing assets	**32,293**	25,478	10,628
Insurance and reinsurance receivables	**21,451**	15,742	2,249
Receivables on credit card services and money transfers	**14,390**	26,703	24,801
Receivable on terminated leases	**12,651**	8,961	7,832
Trade receivable	**8,292**	13,862	2,232
Rental income receivables	**3,492**	4,414	3,816
Bank assurance income receivable	**2,527**	15,923	4,549
Factored receivables	**-**	6,182	900
Other	**19,976**	19,297	15,462
Total gross amount of other financial assets	**195,612**	164,164	101,287
Less: Credit loss allowance	**(28,094)**	(18,020)	(6,660)
Total carrying amount of other financial assets	**167,518**	146,144	94,627

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

12. OTHER FINANCIAL ASSETS CONTINUED

Movements in the credit loss allowance of other financial assets during 2018 were as follows:

In thousands of GEL	**Receivables on terminated leases**	**Other**	**Total**
Provision for impairment as of 31 December 2017	**6,234**	**11,786**	**18,020**
IFRS 9 effect	**-**	**1,019**	**1,019**
Credit loss allowance as of 1 January 2018	**6,234**	**12,805**	**19,039**
Credit loss allowance during the year	**3,143**	**12,097**	**15,240**
Amounts written off during the year as uncollectible	**-**	**(6,404)**	**(6,404)**
Foreign exchange translation gains less losses	**-**	**219**	**219**
Credit loss allowance as of 31 December 2018	**9,377**	**18,717**	**28,094**

Additions less releases recorded in profit or loss for credit loss allowance of other financial assets include write-off of insurance debtors in the amount of GEL 163 thousand that are included in insurance and reinsurance receivables.

Movements in the provision for impairment of other financial assets during 2017 were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2017	4,666	1,994	6,660
Provision for impairment during the year	1,568	10,645	12,213
Amounts written off during the year as uncollectible	-	(1,011)	(1,011)
Recovery of amounts previously written off	-	189	189
Foreign exchange translation gains less losses	-	(31)	(31)
Provision for impairment as of 31 December 2017	6,234	11,786	18,020

Additions less releases recorded in profit or loss for provision for of other financial assets include write-off of insurance debtors in the amount of GEL 226 thousand that are included in insurance and reinsurance receivables.

Movements in the provision for impairment of other financial assets during 2016 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2016	3,561	2,331	5,892
Business Combination	-	72	72
Provision for impairment during the year	1,105	1,748	2,853
Amounts written off during the year as uncollectible	-	(2,370)	(2,370)
Recovery of amounts previously written off	-	213	213
Provision for impairment as of 31 December 2016	4,666	1,994	6,660

12. OTHER FINANCIAL ASSETS CONTINUED

As at 31 December 2018, presentation of other financial assets gross carrying amount and credit loss allowance by IFRS 9 stages are as follows:

	Credit loss allowance				Gross carrying amount			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime CL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	**115,149**	**174**	**33,099**	**148,422**	**9,099**	**1**	**8,920**	**18,020**
IFRS 9 effect	-	-	-	-	796	31	192	1,019
At 1 January 2018	**115,149**	**174**	**33,099**	**148,422**	**9,895**	**32**	**9,112**	**19,039**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	-	(3)	3	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,013)	(17)	5,030	-	(81)	(4)	85	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	210	(86)	(124)	-	57	(20)	(37)	-
New originated or purchased	50,343	13	35,855	86,211	4,439	1	5,596	10,036
Changes to ECL measurement model assumptions	-	-	-	-	(653)	8	7,707	7,062
Derecognised during the period	(26,787)	(44)	(1,243)	(28,074)	(510)	(6)	(1,342)	(1,858)
Net repayments	(6,070)	(14)	(130)	(6,214)	-	-	-	-
Net Write-offs	-	-	(16,772)	(16,772)	-	-	(6,404)	(6,404)
FX movements	(999)	-	(8,413)	(9,412)	-	-	219	219
At 31 December 2018	**126,785**	**74**	**47,302**	**174,161**	**13,144**	**14**	**14,936**	**28,094**

The table below illustrates the credit quality of other financial receivables:

In thousands of GEL	**2018**	2017	2016
Neither past due nor impairment			
- Prepayments for purchase of leasing assets	**32,293**	25,478	10,628
- Insurance and Reinsurance Receivables	**21,451**	15,742	2,249
- Receivables on credit card services and money transfers	**14,390**	26,703	24,801
- Trade receivable	**8,292**	13,862	2,232
- Receivables from sales of repossessed assets	**43,671**	6,481	5,700
- Rental income receivables	**3,492**	4,414	3,816
- Bank assurance income receivable	**2,527**	15,923	4,549
- Receivables on guarantees / letters of credit	**1,496**	2,990	1,089
- Factored receivables	**-**	6,182	900
- Other	**17,848**	14,120	9,496
Total neither past due nor impaired	**145,460**	131,895	65,460
Past due but not impaired			
- Receivables on guarantees			
- More than 90 days overdue	**-**	16,773	17,126
Total past due but not impaired	**-**	16,773	17,126
Receivables individually determined to be impaired (gross)			
- Receivables on terminated leases	**12,651**	8,961	7,832
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**12,651**	8,961	7,832
- Receivables on guarantees and letters of credit	**35,373**	1,220	-
- Less than 90 days overdue	**35,373**	-	-
- More than 90 days overdue	**-**	1,220	-
- Receivables on repossessed assets disposed	**-**	138	4,903
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**-**	138	4,903
- Other receivables	**2,128**	5,177	5,966
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**2,128**	5,177	5,966
Total individually impaired (gross)	**50,152**	15,496	18,701
Less credit loss allowance	**(28,094)**	(18,020)	(6,660)
Total other financial assets	**167,518**	146,144	94,627

12. OTHER FINANCIAL ASSETS CONTINUED

Credit rating of other financial assets neither past due nor impaired is as follows:

In thousands of GEL	**2018**	2017	2016
A+	**1,917**	13,003	2,508
A	**4,949**	4,116	14,086
BBB+	**6,263**	6,265	845
BBB	**35,663**	-	-
BB	**7**	217	-
BB-	**94,479**	7	-
B+	**2,182**	4,332	1,007
B	**-**	726	2,645
Not rated	**-**	103,229	44,369
Total	**145,460**	131,895	65,460

Impaired receivables include receivables on terminated leases and other receivables for which impairment provision was assessed individually. A receivable's overdue status is a primary factor for the Group to consider a receivable as impaired. Receivables on terminated leases individually determined to be impaired are under-collateralised and their estimated fair value of collateral amounts to GEL 1,484 thousand (2017: GEL 1,206 thousand; 2016: GEL 2,039 thousand). The remaining assets are not collateralized.

13. INVESTMENTS IN FINANCE LEASE

As of 31 December 2018 investments in finance lease of GEL 203,802 thousand (2017: GEL 143,836 thousand; 2016: GEL 95,031 thousand) are represented by leases of fixed assets excluding land and buildings.

In thousands of GEL	**Due in 1 year**	**Due between 1 and 5 years**	**Total**
Finance lease payments receivable as of 31 December 2018	**122,056**	**148,623**	**270,679**
Unearned finance income	**(32,981)**	**(30,294)**	**(63,275)**
Credit loss allowance	**(1,789)**	**(1,813)**	**(3,602)**
Present value of lease payments receivable as of 31 December 2018	**87,286**	**116,516**	**203,802**
Finance lease payments receivable as of 31 December 2017	86,186	105,595	191,781
Unearned finance income	(23,720)	(22,727)	(46,447)
Impairment loss provision	(765)	(733)	(1,498)
Present value of lease payments receivable as of 31 December 2017	61,701	82,135	143,836
Finance lease payments receivable as of 31 December 2016	65,265	56,672	121,937
Unearned finance income	(15,302)	(10,462)	(25,764)
Impairment loss provision	(678)	(464)	(1,142)
Present value of lease payments receivable as of 31 December 2016	49,285	45,746	95,031

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

For fair values refer to Note 42.

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

The table below illustrates the movements in the credit loss allowance of net investment in finance lease:

In thousands of GEL	**31 December 2018**	**31 December 2017**	**31 December 2016**
Credit loss allowance at the beginning of the year	**2,237**	1,142	738
Credit loss allowance during the year	**1,765**	492	558
Amounts written off during the year as uncollectible	**(400)**	(136)	(154)
Credit loss allowance at the end of the year	**3,602**	1,498	1,142

13. INVESTMENTS IN FINANCE LEASE CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for Investments in finance lease between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	**519**	**51**	**928**	**1,498**	**128,500**	**11,610**	**5,224**	**145,334**
IFRS 9 effect	345	394	-	739	-	-	-	-
At 1 January 2018	**864**	**445**	**928**	**2,237**	**128,500**	**11,610**	**5,224**	**145,334**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(9)	9	-	-	(3,996)	4,078	(82)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(367)	(20)	387	-	(10,605)	(4,533)	15,138	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	357	(357)	-	-	1,052	(1,033)	(19)	-
New originated or purchased	1,350	108	255	1,714	120,992	7,208	5,165	133,365
Derecognised during the period	(103)	(81)	(717)	(901)	(36,040)	(5,372)	(3,541)	(44,953)
Partial repayment	-	-	-	-	(24,985)	(1,468)	(4,887)	(31,340)
Net repayments	(47)	101	(498)	552	-	-	-	-
Foreign currency effect	-	-	-	-	1,250	94	289	1,633
Other movements	-	-	-	-	2,003	277	1,085	3,365
At 31 December 2018	**2,045**	**205**	**1,352**	**3,602**	**178,171**	**10,861**	**18,372**	**207,404**

The Group applied the portfolio provisioning methodology prescribed by IFRS 9 for the periods beginning 1 January 2018 and IAS 39 for the periods before 1 January 2018 and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors taken into account to consider whether or not a lease is impaired are the deterioration of the lessee's financial position, its overdue status, and liquidity of the leased asset. The impact of IFRS 9 was immaterial for terminated leases.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

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

13. INVESTMENTS IN FINANCE LEASE CONTINUED

Per IFRS 9 impairment methodology, the Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage 2 classification and incorporation of forward looking information in allowance calculation. For stage 1 no increase was identified considering that the Company has already been applying 12 months loss identification period (LIP) under IAS 39 methodology.

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition.

Under IFRS 9 methodology the Company updated its default definition criteria as well in order to make it consistent with the Company's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Company incorporates forward looking information for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Company derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to note 36 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Company calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

As at 31 December 2018, credit quality of net investment in finance lease is analysed below:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Investments in Finance Lease risk category				
- Very low	**145,220**	**-**	**-**	**145,220**
- Low	**32,951**	**2,350**	**-**	**35,301**
- Moderate	**-**	**6,712**	**-**	**6,712**
- High	**-**	**1,799**	**-**	**1,799**
- Default	**-**	**-**	**18,372**	**18,372**
Gross carrying amount	**178,171**	**10,861**	**18,372**	**207,404**
Credit loss allowance	**(2,045)**	**(205)**	**(1,352)**	**(3,602)**
Carrying amount	**176,126**	**10,656**	**17,020**	**203,802**

13. INVESTMENTS IN FINANCE LEASE CONTINUED

Credit quality of net investment in finance lease as at 31 December 2017 and 2016 is analysed below:

In thousands of GEL	31 December 2017	31 December 2016
Neither past due nor impaired		
- Customers with more than two year experience	22,705	28,084
- New customers	90,668	45,404
Total neither past due nor impaired	113,373	73,488
Past due but not impaired		
- Less than 30 days overdue	19,047	15,357
- 31 to 90 days overdue	9,310	5,101
Total past due but not impaired	28,357	20,458
impaired leases		
- Not overdue	-	-
- 1 to 30 days overdue	-	-
- 31 days to 90 days overdue	343	-
- From 91 to 180 days	2,204	1,079
- From 181 to 360 days	339	966
- More than 360 days	718	182
Total impaired gross*	3,604	2,227
Total investment in finance lease	145,334	96,173
Credit loss allowance	(1,498)	(1,142)
Total net investment in finance lease	143,836	95,031

*Total impaired leases include both collectively and individually impaired leases

The effect of collateral as of 31 December 2018:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of c ollateral**
Investment in leases	**166,362**	**253,582**	**41,042**	**34,527**
Total	**166,362**	**253,582**	**41,042**	**34,527**

The effect of collateral as of 31 December 2017:

	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
Investment in leases	96,015	153,813	49,319	9,710
Total	96,015	153,813	49,319	9,710

The effect of collateral as of 31 December 2016:

	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
Investment in leases	75,364	112,917	20,809	16,817
Total	75,364	112,917	20,809	16,817

14. OTHER ASSETS

In thousands of GEL	**2018**	2017	2016
Current other assets			
Inventories of repossessed collateral	**120,663**	116,809	90,873
Prepayments for other assets	**29,027**	9,721	28,660
Other inventories	**4,198**	4,194	3,973
Prepaid taxes other than income tax	**856**	5,788	3,326
Other debtor	**-**	-	35,497
Total current other assets	**154,744**	136,512	162,329
Non-current other assets			
Reinsurer's Assets	**14,529**	8,342	64
Assets repossessed from terminated leases	**10,819**	3,210	2,673
Assets purchased for leasing purposes	**6,985**	2,733	286
Prepayments for construction in progress	**2,259**	2,745	2,445
Prepaid insurance of leasing assets	**2,174**	1,884	937
Other	**1,282**	1,225	2,529
Total non-current other assets	**38,048**	20,139	8,934
Total other assets	**192,792**	156,651	171,263

Included in Other Debtors is receivable from one corporate client, in respect of settlement of previously written-off loan.

Inventories of repossessed collateral represent real estate assets and equipment acquired by the Group in settlement of impaired loans, other than those classified as investment property or premises and equipment. The Group expects to dispose these assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value. In 2018, collateral repossessed for settlement of impaired loans amounted to GEL 30 million (2017: GEL 53 million; 2016: GEL 39 million).

With regards to certain inventories of repossessed collaterals, the Group has granted previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 18 months from the date of repossession, during this time the repossessed collateral may not be disposed to third parties. As of 31 December 2018, the carrying value of the inventories of repossessed collateral subjected to the repurchase agreement was GEL 44,024 thousand (2017: GEL 11,170 thousand; 2016: GEL 20,342 thousand).

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construct-ion in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 1 January 2016	162,126	152,662	50,033	364,821	67,344	432,165
Accumulated depreciation/ amortisation Including accumulated impairment loss	(29,545)	(87,509)	-	(117,054)	(23,000)	(140,054)
Carrying amount as of 1 January 2016	132,581	65,153	50,033	247,767	44,344	292,111
Additions	5,555	19,369	6,206	31,130	18,904	50,034
Business combination	50,049	8,260	36	58,345	6,761	65,106
Transfers within premises and equipment	3,042	-	(3,042)	-	-	-
Transfers to repossessed assets	(298)	-	-	(298)	-	(298)
Disposals	(2,571)	(3,836)	(69)	(6,476)	(4)	(6,480)
Effect of translation to presentation currency - Cost	(31)	(45)	-	(76)	(12)	(88)
Impairment charge to profit and loss	(574)	(675)	-	(1,249)	(2,043)	(3,292)
Depreciation/amortisation charge	(3,269)	(16,895)	-	(20,164)	(6,981)	(27,145)
Elimination of accumulated depreciation/amortisation on disposals	2,439	2,555	-	4,994	-	4,994
Effect of translation to presentation currency - Accumulated depreciation	27	32	-	59	(12)	47
Carrying amount as of 31 December 2016	186,950	73,918	53,164	314,032	60,957	374,989
Cost or valuation as of 31 December 2016	217,299	175,636	53,164	446,099	90,950	537,049
Accumulated depreciation/ amortisation including accumulated impairment loss	(30,349)	(101,718)	-	(132,067)	(29,993)	(162,060)
Carrying amount as of 31 December 2016	186,950	73,918	53,164	314,032	60,957	374,989
Additions	5,684	26,440	48,663	80,787	34,877	115,664
Transfers within premises and equipment	11,326	-	(11,326)	-	-	-
Transfer from investment property	1,114	-	-	1,114	-	1,114
Disposals	(2,324)	(9,638)	-	(11,962)	(88)	(12,050)
Effect of translation to presentation currency -Cost	25	54	-	79	11	90
Impairment charge to profit and loss	(6)	(730)	(46)	(782)	(1,916)	(2,698)
Depreciation/amortisation charge	(5,567)	(20,096)	-	(25,663)	(10,436)	(36,099)
Elimination of accumulated depreciation/amortisation on disposals	747	8,636	-	9,383	30	9,413
Effect of translation to presentation currency - Accumulated depreciation	(25)	(50)	-	(75)	57	(18)
Carrying amount as of 31 December 2017	**197,924**	**78,534**	**90,455**	**366,913**	**83,492**	**450,405**

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construct-ion in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 31 December 2017	233,118	191,762	90,455	515,335	123,834	639,169
Accumulated depreciation/ amortisation including accumulated impairment loss	(35,194)	(113,228)	-	(148,422)	(40,342)	(188,764)
Carrying amount as of 31 December 2017	197,924	78,534	90,455	366,913	83,492	450,405
Additions	8,804	46,619	8,538	63,961	42,525	106,486
Business combination	3,607	301	-	3,908	-	3,908
Transfers within premises and equipment	2,661	-	(2,661)	-	-	-
Transfer from investment property	-	-	1,317	1,317	-	1,317
Transfer to investment property	-	-	(32,628)	(32,628)	-	(32,628)
Disposals	(4,160)	(22,945)	-	(27,105)	(603)	(27,708)
Revaluation	10,635	-	114	10,749	-	10,749
Effect of translation to presentation currency - Cost	23	23	-	46	11	57
Impairment charge to profit and loss	(474)	(21)	(4)	(499)	-	(499)
Depreciation/amortisation charge	(5,754)	(22,548)	-	(28,302)	(16,257)	(44,559)
Elimination of accumulated depreciation/amortisation on disposals	348	8,783	-	9,131	58	9,189
Effect of translation to presentation currency - Accumulated depreciation	(22)	35	-	13	(6)	7
Carrying amount as of 31 December 2018	213,592	88,781	65,131	367,504	109,220	476,724
Cost or valuation as of 31 December 2018	254,214	215,739	65,131	535,084	165,767	700,851
Accumulated depreciation/ amortisation including accumulated impairment loss	(40,622)	(126,958)	-	(167,580)	(56,547)	(224,127)
Carrying amount as of 31 December 2018	213,592	88,781	65,131	367,504	109,220	476,724

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

15. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

The latest valuation date of premises to market value is 30 November 2018. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

The management considers that the fair value has not changed significantly between 30 November 2018 and 31 December 2018. Fair value of respective assets is disclosure below.

In thousands of GEL (except for range of inputs)	**Fair value as of 30 November 2018 (valuation date)**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	153,590	Sales comparison approach	Land	Price per square meter	287 – 10,274 (577)
			Buildings		670 – 5,257 (2,715)
Branches	98,737	Sales comparison approach	Land	Price per square meter	7 – 4,057 (235)
			Buildings		337 – 12,911 (2,982)

Sensitivity of the input to fair value - increase/(decrease) in the price per square metre would result in increase/(decrease) in fair value.

As of 31 December 2018 the carrying amount of premises would have been GEL 166,707 thousand (2017: GEL 144,778 thousand; 2016: GEL 134,352 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2018 the carrying amount of construction in progress would have been GEL 42,243 thousand (2017: GEL 67,033 thousand; 2016: GEL 30,394 thousand) had the assets been carried at cost less impairment losses.

16. INVESTMENT PROPERTIES

In thousands of GEL	Note	2018	2017	2016
Gross book value as of 1 January		**83,871**	99,347	60,648
Accumulated depreciation as of 1 January		**(4,639)**	(3,732)	(3,048)
Carrying amount as of 1 January		**79,232**	95,615	57,600
Transfer to premises and equipment	15	**(1,317)**	(1,143)	-
Transfer from inventories of repossessed collateral		**4,625**	752	15,935
Transfer to repossessed collateral		**-**	(590)	-
Addition from foreclosure		**-**	943	6,820
Disposals at cost		**(36,080)**	(15,438)	(6,892)
Elimination of depreciation on disposal		**3,232**	259	253
Depreciation charge		**(1,181)**	(1,166)	(937)
Acquisition through business combination	45	**3,157**	-	22,836
Transfer from Premises and equipment		**32,628**	-	-
Gross book value as of 31 December		**86,884**	83,871	99,347
Accumulated depreciation as of 31 December		**(2,588)**	(4,639)	(3,732)
Carrying amount as of 31 December		**84,296**	79,232	95,615

As of 31 December 2018, investment properties comprised of 73 lots (2017: 102 lots; 2016: 62 lots) of land and 127 buildings (2017: 144 buildings; 2016: 141 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 97,425 thousand (2017: GEL 85,012 thousand; 2016: GEL 123,852 thousand).

For disclosure purposes a fair valuation exercise was carried out for investment properties as of 31 December 2018. The valuation in 2018 was carried out by external valuators (in 2017 and 2016 by internal valuators) who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 31 December 2018 (valuation date)**	**Valuation technique**	**Unobservable inputs**	**Range of unobser-vable inputs (weighted average)**
Land	**44,315**	**Sales comparison approach**	**Price per square meter**	**0.80 – 974 (88)**
Buildings	**53,110**	**Sales comparison approach**	**Price per square meter**	**3.92 – 4,098 (960)**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

In thousands of GEL	2018	2017	2016
Not later than 1 year	**185**	177	463
Later than 1 year and not later than 5 years	**-**	-	805
Total operating lease payments receivable	**185**	177	1,268

17. GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	2018	2017	2016
Carrying amount as of 1 January	**28,658**	28,658	2,726
Acquisition of subsidiaries	**2,628**	-	25,932
Carrying amount as of 31 December	**31,286**	28,658	28,658

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2018	2017	2016
JSC Bank Republic*	**24,166**	24,166	24,166
Bank Republic Retail	**11,088**	11,088	-
Bank Republic Corporate	**7,491**	7,491	-
Bank Republic MSME	**4,791**	4,791	-
Bank Republic Other	**796**	796	-
LLC Bonaco (Note 45)	**2,567**	-	-
JSC Swoop	**61**	-	-
CGU Micro	**769**	769	769
JSC United Financial Corporation	**695**	695	695
LLC TBC Kredit	**1,262**	1,262	1,262
JSC TBC Insurance	**1,766**	1,766	1,766
Total carrying amount of goodwill	**31,286**	28,658	28,658

*Due to Bank Republic merger in 2017, carrying amount of goodwill was allocated across multiple CGU's of the Bank, that also equal to the operating and reporting segments.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

In thousands of GEL	2018	2017	2016
JSC Bank Republic**			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**20.27% p.a.**	18.71% p.a.	21.72% p.a.
CGU SME / JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**13.06% p.a.**	12.01% p.a.	14.39% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**18.31% p.a.**	18.16% p.a.	19.18% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	**1.3% p.a.**	1.3% p.a.	4.00% p.a.
Pre-tax discount rate	**24.57% p.a.**	31.35% p.a.	28.10% p.a.
JSC TBC Insurance			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**18.24% p.a.**	18.15% p.a.	19.50% p.a.

**Assumptions related to JSC Bank Republic are similar for all related CGU's.

17. GOODWILL CONTINUED

Goodwill Impairment Test *Continued.* The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 84,111 thousand (2017: GEL 781,330 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 21.77% p.a. (2017: 29.92% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 850,072 thousand (2017: GEL 402,679 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 38.86% p.a. (2017: 27.97% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 461,500 thousand (2017: GEL 246,759 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.83% p.a. (2017: 27.11% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro/JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2017: nil; 2016: nil). Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 913,325thousand (2017: GEL 440,075 thousand; 2016: GEL 284,402 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 48.53% p.a. (2017: 34.60% p.a.; 2016: 30.74%p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2017: nil and nil; 2016: nil and nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 13,458 thousand (2017: GEL 17,866 thousand; 2016: GEL 13,073 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 29.8% p.a. (2017: 39.27% p.a.; 2016: 46.36% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill (2017:nil; 2016: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 277,830 thousand (2017: GEL 36,420 thousand; 2016: GEL 20,505 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 132.34% of p.a.(2017: 119.51% p.a.; 2016: 68.64% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC TBC Insurance had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2017: nil; 2016: nil). Recoverable amount of JSC TBC Insurance CGU exceeds its carrying amount by GEL 208,095 thousand (2017: GEL 51,549 thousand; 2016: 58,588 l). The CGU's carrying amount would equal its value in use at a discount rate of 111.71% p.a. (2017: 63.63% 2016: 62.29%;).

18. DUE TO CREDIT INSTITUTIONS

In thousands of GEL	**2018**	2017	2016
Due to other banks			
Correspondent accounts and overnight placements	**23,273**	21,777	22,872
Deposits from banks	**136,161**	64,441	176,443
Short-term loans from banks	**-**	-	117,592
Total due to other banks	**159,434**	86,218	316,907
Other borrowed funds			
Borrowings from foreign banks and financial institutions	**2,065,560**	1,591,778	1,412,095
Borrowings from local banks and financial institutions	**769,911**	908,271	439,234
Borrowings from Ministry of Finance	**1,520**	2,914	4,203
Borrowings from other financial institutions	**35,078**	31,533	25,138
Total other borrowed funds	**2,872,069**	2,534,496	1,880,670
Total amounts due to credit institutions	**3,031,503**	2,620,714	2,197,577

As of 31 December 2018 for the purposes of maturity analysis of financial liabilities (Note 36) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

19. CUSTOMER ACCOUNTS

In thousands of GEL	**2018**	2017	2016
State and public organisations			
- Current/settlement accounts	**667,553**	810,783	240,743
- Term deposits	**538,311**	209,641	78,990
Other legal entities			
- Current/settlement accounts	**2,791,092**	2,207,630	2,143,483
- Term deposits	**251,215**	210,498	243,582
Individuals			
- Current/demand accounts	**2,426,597**	1,973,685	1,618,434
- Term deposits	**2,677,374**	2,404,580	2,129,717
Total customer accounts	**9,352,142**	7,816,817	6,454,949

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017		31 December 2016	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**5,103,971**	**55%**	4,378,265	56%	3,748,151	58%
Construction	**613,973**	**7%**	377,944	5%	222,372	4%
Trade	**550,527**	**6%**	209,339	3%	305,022	5%
Government sector	**531,964**	**6%**	330,356	4%	140,852	2%
Transportation	**422,281**	**5%**	376,333	5%	188,388	3%
Energy & Utilities	**397,653**	**4%**	429,722	5%	283,497	4%
Financial Services	**394,336**	**4%**	379,772	5%	501,591	8%
Services	**360,084**	**4%**	236,128	3%	269,824	4%
Real Estate	**207,227**	**2%**	119,507	2%	82,893	1%
Hotels and Leisure	**102,529**	**1%**	174,777	2%	104,066	2%
Healthcare	**76,464**	**1%**	106,439	1%	64,493	1%
Agriculture	**35,884**	**0%**	29,199	0%	37,850	1%
Metals and Mining	**12,479**	**0%**	16,976	0%	22,817	0%
Food Industry	**-**	**0%**	175,676	2%	82,984	1%
Automotive	**-**	**0%**	71,628	1%	53,865	1%
Communication	**-**	**0%**	50,059	1%	56,787	1%
Other	**542,770**	**5%**	354,697	5%	289,497	4%
Total customer accounts	**9,352,142**	**100%**	7,816,817	100%	6,454,949	100%

19. CUSTOMER ACCOUNTS CONTINUED

As of 31 December 2018 the Group had 305 customers (2017: 261 customers; 2016: 222 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,117,881 thousand (2017: GEL 3,439,673 thousand; 2016: GEL 2,539,513 thousand) or 44% of total customer accounts (2017: 44%; 2016: 39%).

As of 31 December 2018 included in customer accounts are deposits of GEL 6,766 thousand and GEL 158,306 thousand (2017: GEL 11,040 thousand and GEL 120,406 thousand; 2016: GEL 13,355 thousand and GEL 119,146 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 38. As of 31 December 2018, deposits held as collateral for loans to customers amounted to GEL 270,787 thousand (2017: GEL 224,899 thousand; 2016: 342,365 thousand).

Refer to Note 42 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 44.

20. DEBT SECURITIES IN ISSUE

In thousands of GEL	**Currency**	**Carrying amount in GEL as of 31 December 2018**	**Maturity Date**	**Coupon rate**	**Effective interest rate**
Bonds issued on Georgian market	**USD**	**7,927**	**22-Jul-19**	**7.3%**	**8.1%**
Bonds issued on Georgian market	**USD**	**5,416**	**16-May-19**	**8.0%**	**8.7%**
Total debt securities in issue		**13,343**			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2017	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	7,637	22-Jul-19	7.3%	8.1%
Bonds issued on Georgian market	USD	5,224	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,834	15-Aug-18	7.8%	8.6%
Total debt securities in issue		20,695			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2016	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	5,312	3-Sep-17	8.4%	9.2%
Bonds issued on Georgian market	USD	5,237	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,198	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,761	22-Jul-19	7.3%	8.1%
Total debt securities in issue		23,508			

Refer to Note 42 for the disclosure of the fair value of debt securities in issue.

21. PROVISION FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2016	1,472	5,589	2,400	9,461
Charges less releases recorded in profit or loss	(452)	1,223	2,528	3,299
Assuming guarantees following asset purchase	909	-	-	909
Additions through Business Combinations	706	1,237	414	2,357
Carrying amount as of 31 December 2016	2,635	8,049	5,342	16,026
Charges less releases recorded in profit or loss	(579)	190	(332)	(721)
Assuming guarantees following asset purchase	-	-	(2,116)	(2,116)
Additions through Business Combinations	11	-	-	11
Carrying amount as of 31 December 2017	**2,067**	**8,239**	**2,894**	**13,200**
IFRS 9 transition effect	**684**	**(4,661)**	**-**	**(3,977)**
Carrying amount as of 1 January 2018	**2,751**	**3,578**	**2,894**	**9,223**
Charges less releases recorded in profit or loss	**1,640**	**1,846**	**6,056**	**9,542**
Effect of translation to presentation currency	**2**	**-**	**-**	**2**
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**8,950**	**18,767**

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 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 Bank distinguishes between revocable and irrevocable loan commitments. For revocable commitments the Bank does not create impairment allowance. As for the irrevocable undisbursed exposures the Bank 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 Bank applies the same impairment framework approach as the one used for the respective type of on balance exposures.

Additions less releases recorded in profit or loss for "Other" provisions does not include gross change in total reserves for insurance claims in amount of GEL 29,786 thousand (2017: GEL 1,621 thousand; 2016: GEL 318 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 receivables in the amount of GEL 570 thousand (2017: GEL 542 thousand) that are included in charges less releases recorded in profit or loss for "Other" provision.

For the purpose of ECL measurement other guarantees balances are included in mainly Stage 1 or Stage 2. Refer to Note 36 for the ECL measurement approach.

22. OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

In thousands of GEL	Note	2018	2017	2016
Trade payables		**24,270**	31,497	16,612
Security deposits for finance lease		**22,100**	20,647	8,241
Debit or credit card payables		**19,146**	10,567	12,066
Insurance Contracts Liabilities		**16,839**	10,992	486
Derivative financial liabilities	41	**2,119**	575	1,298
Other accrued liabilities		**14,240**	17,475	12,295
Total other financial liabilities		**98,714**	91,753	50,998

Refer to Note 42 for disclosure of the fair value of other financial liabilities.

23. OTHER LIABILITIES

Other liabilities comprise the following:

In thousands of GEL	2018	2017	2016
Accrued employee benefit costs	**48,393**	42,497	38,317
Taxes payable other than on income	**19,477**	14,180	16,723
Advances received	**10,867**	10,350	6,284
Unearned insurance premium	**17,911**	14,221	3,859
Other	**7,689**	3,192	1,556
Total other financial liabilities	**104,337**	84,440	66,739

All of the above liabilities are expected to be settled within twelve months after the year-end.

24. SUBORDINATED DEBT

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	**26-Jun-13**	**15-Jun-20**	**USD**	**7,509**	**20,100**
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	**19-Dec-13**	**15-Apr-23**	**USD**	**29,213**	**78,191**
Kreditanstalt für Wiederaufbau Bankengruppe	**10-Jun-14**	**8-May-21**	**GEL**	**6,161**	**6,161**
Kreditanstalt für Wiederaufbau Bankengruppe	**4-May-15**	**8-May-21**	**GEL**	**6,737**	**6,737**
Green for Growth Fund	**18-Dec-15**	**18-Dec-25**	**USD**	**15,312**	**40,983**
European Fund for Southeast Europe	**18-Dec-15**	**18-Dec-25**	**USD**	**7,666**	**20,520**
European Fund for Southeast Europe	**15-Mar-16**	**15-Mar-26**	**USD**	**7,665**	**20,516**
Asian Developement Bank (ADB)	**18-Oct-16**	**18-Oct-26**	**USD**	**50,617**	**135,482**
Private lenders	**30-Jun-17**	**30-Jun-23**	**USD**	**25,218**	**67,497**
Subordinated Bond	**17-Aug-18**	**30-Nov-22**	**USD**	**10,109**	**27,057**
Global climat partnership fund	**20-Nov-18**	**20-Nov-28**	**USD**	**25,111**	**67,211**
Responsibility SICAV (Lux) Microfinance Leaders	**30-Nov-18**	**30-Nov-28**	**USD**	**1,007**	**2,695**
Responsibility SICAV (Lux) Financial inclusion fund	**30-Nov-18**	**30-Nov-28**	**USD**	**3,121**	**8,354**
Responsibility Micro and SME finance fund	**30-Nov-18**	**30-Nov-28**	**USD**	**5,943**	**15,906**
BlueOrchard Microfinance Fund	**14-Dec-18**	**14-Dec-25**	**USD**	**14,916**	**39,923**
BlueOrchard Microfinance Fund	**14-Dec-18**	**14-Dec-28**	**USD**	**14,915**	**39,923**
European Fund for Southeast Europe	**21-Dec-18**	**21-Dec-28**	**USD**	**20,049**	**53,663**
Total subordinated debt					**650,919**

As of 31 December 2018, subordinated debt comprised of:

24. SUBORDINATED DEBT CONTINUED

As of 31 December 2017, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,467	27,134
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,496	19,430
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,577	92,222
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,161	6,161
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,259	39,554
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,640	19,805
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,639	19,802
Asian Developement Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,467	130,822
Private lenders	30-Jun-17	30-Jun-23	USD	24,114	62,508
LC Opportunity fund(Thales)	14-Jul-17	5-Dec-18	USD	1,008	2,613
Total subordinated debt					426,788

As of 31 December 2016, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,446	27,649
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,480	19,799
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,474	93,891
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,239	40,335
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,631	20,197
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,629	20,194
Asian Developement Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,407	133,417
Total subordinated debt					368,381

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

Refer to Note 42 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 44.

25. SHARE CAPITAL

In thousands of GEL except for number of shares	Number of ordinary shares	Share capital
As of 1 January 2016	49,529,463	19,811
Increase in share capital arising from share based payment	525,456	210
Conversion of shares following the Tender Offer*	(895,039)	(358)
Share capital adjustment for new nominal value**	-	(18,169)
Shares issued	3,006,823	87
As of 31 December 2016	52,166,703	1,581
Shares issued	516,140	16
Scrip dividend issued	146,903	5
Share exchange	102,121	3
As of 31 December 2017	**52,931,867**	**1,605**
Shares issued	**618,640**	**21**
Scrip dividend issued	**58,762**	**2**
Share exchange	**635,060**	**22**
As of 31 December 2018	**54,244,329**	**1,650**

* 895,039 is the number of JSC TBC Bank shares that were not converted into the TBC Bank Group PLC shares

** Negative GEL 18,169 thousand is effect of nominal value adjustment whereby the nominal value of 49,159,880 TBC Bank Group PLC shares was changed from GEL 0.4 to one British Penny translated in GEL with the official exchange rate on share conversion date

As of 31 December 2018 the total authorised number of ordinary shares was 54,244,329 shares (31 December 2017: 52,931,867 shares; 31 December 2016: 52,166,703 shares). Each share has a nominal value of one British Penny (31 December 2015: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

On 21 May 2018, at the Annual General Meeting, TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 24 May 2018 of amount GEL 88,869 thousand and was paid on 22 June 2018 out of which scrip dividend shares amounted to 58,762 and were issued on 22th of June.

On 5 June 2017, at the annual general meeting TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.42 per share, based on the 2016 audited financial statements. The dividend was recorded on 9 June 2017 of amount GEL 74,809 thousand and was paid on 14 July 2017 out of which scrip dividend shares amounted to 146,903 and were issued on 14th of July.

On 25 April 2016, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.09 per share, based on the 2015 audited financial statements. The dividend was recorded on 3 May 2016 and on 11 May 2016 shareholders received the payment of the total GEL 54,560 thousand dividends.

On 24 April 2018 635,060 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of a private offer to the holders of the ordinary shares of JSC TBC Bank who have tendered Bank shares pursuant to the Offer. The holders of Bank shares are individuals that did not participate in the tender offer to holders made in 2016 or 2017 by TBC Bank Group PLC. Holders of Bank shares received one Offer Share for each Bank Share tendered pursuant to the Offer.

On 23 June 2017 102,121 new ordinary shares of TBC Bank Group PLC were admitted to the premium segment of the London Stock Exchange. The Offer Shares were issued pursuant to the terms of a private offer to the holders of the ordinary shares of JSC TBC Bank who have tendered Bank shares pursuant to the Offer. The holders of Bank shares are individuals that did not participate in the tender offer to holders made in 2016 by TBC Bank Group PLC prior to TBC Bank Group PLC's admission to the premium segment of the London Stock Exchange. Holders of Bank shares received one Offer Share for each Bank Share tendered pursuant to the Offer.

On 4 August 2016, the Group completed the Tender Offer under which 49,159,880 of the Bank's shares then outstanding or 98.21%, were converted into 49,159,880 shares of TBC Bank Group PLC.

25. SHARE CAPITAL CONTINUED

Following the Admissions, TBCG's Directors undertook a reduction of capital in order to create distributable reserves for TBCG. The original difference between the fair value of the Bank's shares and the nominal value of TBCG's shares was credited to the merger reserve created in connection with the Tender Offer. Each TBCG share had an original (Tender Offer) nominal value of GBP 5.00 and the minimum premium amount required by the Company Act 2006 of GEL 565,030 thousand was transferred to share premium. Following the capital cut the nominal value of TBCG shares was reduced to GBP 0.01. The capital cut created a new reserve on the statement of TBCG's financial position (comprising of the reduction of the original nominal value from GBP 5.00 to GBP 0.01 per share) amounting to GEL 745,637 thousand. The reduction represents a legal and accounting adjustment and did not, in itself, have any direct impact on TBCG shares' market value. As a result of the reduction, the Group's total additional paid-in capital outstanding at the time became distributable to the shareholders and was fully reclassified to retained earnings.

These transactions were treated as a reorganisation of an existing entity that has not changed the substance of the reporting entity. The consolidated financial statements of TBCG are presented using the values from the consolidated financial statements of JSC TBC Bank. On the date that TBCG became the new parent of the Group, the statutory amounts of share capital and share premium of the Company have been recognised through an adjustment in the Statement of Changes in Equity under the heading 'Change of parent company to TBCG'. The resulting difference has been recognised as a component of equity under the heading ''Group reorganisation reserve''.

26. SHARE BASED PAYMENTS

June 2013 arrangement: In June 2013, the Bank's Supervisory Board approved a new management compensation scheme for the years 2013 – 2015 and authorised a maximum of 4,150 new shares to be issued in accordance with the scheme. The authorized number of new shares has increased to 1,037,500 in order to reflect the share split 250-for-1 approved by the shareholders on 4 March 2014. According to the scheme, each year, (subject to predefined performance conditions) a certain number of shares were awarded to the top management and some of the middle managers of the Group.

The performance evaluation is divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded (legally transferred) depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the award date. The team goals primarily focus on meeting the target for growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achieving the team goals. Individual performance indicators are defined on an individual basis and are used to calculate the number of shares to be awarded to each employee out of the total bonus pool. Once awarded, these shares carry service conditions and, before those conditions are met, are eligible to dividends. However, they do not carry voting rights and 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 2013, 2014 and 2015 tranche gradually ran over on the second, third, and fourth year following the performance appraisal. Eighty per cent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to June 2019.

Under the new management compensation scheme, both shareholders and Supervisory Board hold put options on the shares to be awarded. In addition, they both hold put options on all bonus shares awarded under the previous share-based payment arrangements. All the put-options became null and void upon the listing on the LSE in June 2014. At no point of the operation of the share-based payment scheme did the management expect the put-options to be exercised. Consequently, the scheme was accounted for as equity-settled scheme and no obligation was recognized for the put-options.

26. SHARE BASED PAYMENTS CONTINUED

In 2013 the Group considered 20 June as the grant date. Based on the management's expectation of performance and service conditions, 732,000 shares have been granted and will be gradually awarded to the members of the described scheme. An external evaluator assessed the fair value per share at the grant date at GEL 13.93 adjusted for the effect of 250-for-1 share split Income and market approaches were applied for the evaluation. The market approach involved an estimate of the market capitalization to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose lenders operating in the Black Sea region and Central and Eastern Europe with a portfolio mix and growth priorities similar to TBC Bank. The income approach involved discounting free cash flows to equity estimated over a 10-year horizon. When developing the projections, the following major assumptions were made:

- Over the 2013-2023 periods, the compound annual growth rate was assumed at 15.2% for loans and at 15.1% for customer accounts;
- The spread on the Bank's customer business was assumed to gradually decline from an estimated 10.2% in 2013 to stabilize at 5.8% by 2021;
- Over 2013-2023 period, non-interest income was forecast to average 1.8% of customer volume (i.e. gross loans and deposits);
- Year-on-year growth in various components of employee's compensation was assumed at 37.6%-56.0% in 2014, 2.4%-9.8% in 2015 and was then assumed to gradually decline to 2.1%-3.6% in 2023. Year-on-year growth in administrative expenses was assumed at 38.3% in 2014, 10.4% in 2015 and to gradually decline to 3.3% in 2023;
- The Bank's terminal value was estimated using the Gordon growth model, applying US long-term inflation forecast (2.1%) as the Bank's terminal cash flows growth rate;
- Bank's cost of equity was estimated at 15.10%.

The final valuation was based on the income approach and the market one was used to check the results obtained by the former. The calculated value of Bank's equity was then divided by the number of ordinary shares issued as of date and further reduced with the discount for lack of control.

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 new system will be enforced from 2015 through 2018, replacing the system introduced in June 2013 -- the performance evaluation as well as the respective compensation for 2015 year-end results will be paid under the new system. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares will be 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 Supervisory 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 will also receive the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they do not carry voting rights and 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 were vested in the fourth year 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 will be 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 was updated, and TBC Bank Group PLC distributes its shares to the scheme's participants. The shares' value is recharged to the JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

26. SHARE BASED PAYMENTS CONTINUED

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries, which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In thousands of GEL except for number of shares	31 December 2018	31 December 2017	31 December 2016
Number of unvested shares at the beginning of the period	**2,284,773**	2,622,707	2,756,605
Change in estimate of number of shares expected to vest based on performance conditions	**166,377**	(13,100)	(11,904)
Forfeited during the period	**-**	-	(35,146)
Number of shares vested	**(330,021)**	(324,834)	(86,848)
Number of unvested shares at the end of the period	**2,121,129**	2,284,773	2,622,707
Value at grant date per share (GEL) old remuneration system	**13.93**	13.93	13.93
Value at grant date per share (GEL) new remuneration system	**24.64**	24.64	24.64
Expense on equity-settled part (GEL thousand)	**11,668**	10,543	12,599
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	**-**	-	(817)
Expense on cash-settled part (GEL thousand)	**8,424**	5,119	10,271
Expense recognised as staff cost during the period (GEL thousand)	**20,092**	15,662	22,053

Liability in respect of the cash-settled part of the award amounted to GEL 11,001 thousand as of 31 December 2018 (2017: GEL 12,675 thousand; 2016: GEL 13,725 thousand).

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

On 31 December 2018 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system and increased estimated number of shares to vest by 166,377 (31 December 2017: decreased by 13,100 shares; 31 December 2016: decreased by 11,904 shares).

27. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to the owners of the Bank by the weighted average number of ordinary shares in issue during the year.

In thousands of GEL except for number of shares	2018	2017	2016
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme	**435,080**	354,410	298,130
Weighted average number of ordinary shares in issue	**53,906,472**	52,685,702	49,592,658
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**8.1**	6.7	6.0

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank 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	2018	2017	2016
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme –	**435,080**	354,410	299,037
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	**54,415,642**	53,480,632	50,946,636
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**8.0**	6.6	5.9

28. 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 2018 the Group has reassessed its definition of segments as disclosed in this note. Some of the clients were reallocated to different segments. GEL 236 million was transferred from Retail to MSME segment and GEL 66 million was transferred from MSME to Corporate segment. Comparative information as of 31 December 2017 and 2016 has not been updated due to impracticability.

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

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

The operating segments during the year 2017 and 2016 were as follows:

- Corporate – all business customers with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other business customers may also be assigned to the Corporate segment on a discretionary basis;
- Micro, small and medium enterprises – all business customers who are not included in Corporate segment; Some other customers may also be assigned to the MSME segment on a discretionary basis;
- Retail – all individual customers not included in the other categories;
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted 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 2018, 2017 or 2016.

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 36.

Allocation is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the most related expenses to it (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

A summary of the Group's reportable segments for the years ended 31 December 2018, 2017 and 2016 is provided below:

28. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
- Interest income	**264,559**	**609,989**	**255,833**	**153,854**	**1,284,235**
- interest expense	**(133,302)**	**(123,729)**	**(9,710)**	**(239,472)**	**(506,213)**
- Inter-segment interest income(expense)	**35,531**	**(78,453)**	**(83,475)**	**126,397**	**-**
- Net interest income	**166,788**	**407,807**	**162,648**	**40,779**	**778,022**
- Fee and commission income	**40,667**	**170,082**	**22,498**	**2,454**	**235,701**
- Fee and commission expense	**(6,661)**	**(64,270)**	**(6,861)**	**(379)**	**(78,171)**
- Net Fee and commission income	**34,006**	**105,812**	**15,637**	**2,075**	**157,530**
- Insurance Profit	**-**	**-**	**-**	**12,275**	**12,275**
- Net gains from trading in foreign currencies	**44,629**	**28,811**	**22,002**	**(3,764)**	**91,678**
- Net losses from foreign exchange translation	**-**	**-**	**-**	**15,196**	**15,196**
- Net losses from derivative financial instruments	**-**	**(223)**	**-**	**396**	**173**
- Gains less losses from disposal of investment securities measured at fair value through other comprehensive income	**-**	**-**	**-**	**2**	**2**
- Other operating income	**19,691**	**8,658**	**748**	**2,341**	**31,438**
- Share of profit of associates	**-**	**-**	**-**	**1,154**	**1,154**
- Other operating non-interest income	**64,320**	**37,246**	**22,750**	**27,600**	**151,916**
- Credit loss allowance for loans to customers	**(9,826)**	**(118,043)**	**(15,854)**	**-**	**(143,723)**
- Credit loss allowance for performance guarantees and credit related commitments	**(2,827)**	**(412)**	**(247)**	**(570)**	**(4,056)**
- Credit loss allowance for investments in finance lease	**-**	**-**	**-**	**(1,765)**	**(1,765)**
- Credit loss allowance for other financial assets	**(8,634)**	**(3,959)**	**(2)**	**(4,014)**	**(16,609)**
- Credit loss allowance for financial assets measured at fair value through OCI	**(95)**	**-**	**-**	**9**	**(86)**
- Profit before administrative and other expenses and income taxes	**243,732**	**428,451**	**184,932**	**64,114**	**921,229**
- Staff costs	**(30,266)**	**(128,957)**	**(43,385)**	**(17,746)**	**(220,354)**
- Depreciation and amortisation	**(2,226)**	**(36,745)**	**(4,980)**	**(1,789)**	**(45,740)**
- Provision for liabilities and charges	**-**	**-**	**-**	**(4,000)**	**(4,000)**
- Administrative and other operating expenses	**(12,616)**	**(90,329)**	**(21,184)**	**(16,806)**	**(140,935)**
- Operating expenses	**(45,108)**	**(256,031)**	**(69,549)**	**(40,341)**	**(411,029)**
- Profit/(loss) before tax	**198,624**	**172,420**	**115,383**	**23,773**	**510,200**
- Income tax expense	**(29,907)**	**(22,898)**	**(17,250)**	**(2,710)**	**(72,765)**
- Profit for the year	**168,717**	**149,522**	**98,133**	**21,063**	**437,435**
Total gross loans and advances to customers reported	**3,177,289**	**4,698,699**	**2,496,594**	**-**	**10,372,582**
Total customer accounts reported	**3,230,653**	**5,103,971**	**1,017,518**	**-**	**9,352,142**
Total credit related commitments and performance guarantees	**1,578,184**	**246,639**	**246,824**	**-**	**2,071,647**

28. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2017					
- Interest income	203,082	535,851	184,008	110,998	1,033,939
- interest expense	(103,707)	(118,516)	(11,661)	(196,040)	(429,924)
- Inter-segment interest income (expense)	22,489	(73,141)	(51,488)	102,140	-
- Net interest income	121,864	344,194	120,859	17,098	604,015
- Fee and commission income	30,037	140,582	20,335	2,990	193,944
- Fee and commission expense	(6,942)	(51,199)	(8,949)	(893)	(67,983)
- Net Fee and commission income	23,095	89,383	11,386	2,097	125,961
- Insurance Profit	-	-	-	6,773	6,773
- Net gains from trading in foreign currencies	38,885	22,597	26,885	(1,268)	87,099
- Net losses from foreign exchange translation	-	-	-	4,374	4,374
- Net losses from derivative financial instruments	-	-	-	(36)	(36)
- Net gains from disposal of available for sale investment securities	-	-	-	93	93
- Other operating income	13,465	12,670	1,726	3,936	31,797
- Share of profit of associates	-	-	-	909	909
- Other operating non-interest income	52,350	35,267	28,611	14,781	131,009
- Provision for loan impairment	27,031	(106,579)	(14,275)	-	(93,823)
- Provision for performance guarantees and credit related commitments	183	(261)	467	(542)	(153)
- Provision for impairment of investments in finance lease	-	-	-	(492)	(492)
- Provision for impairment of other financial assets	(7,666)	(17)	(64)	(4,692)	(12,439)
- Profit before administrative and other expenses and income taxes	216,857	361,987	146,984	28,250	754,078
- Staff costs	(25,989)	(128,331)	(31,225)	(17,555)	(203,100)
- Depreciation and amortisation	(1,438)	(29,813)	(4,972)	(1,042)	(37,265)
- Provision for liabilities and charges	-	-	-	2,495	2,495
- Administrative and other operating expenses	(7,457)	(81,356)	(15,118)	(17,599)	(121,530)
- Operating expenses	(34,884)	(239,500)	(51,315)	(33,701)	(359,400)
- Profit before tax	181,973	122,487	95,669	(5,451)	394,678
- Income tax expense	(27,738)	(15,527)	(13,820)	22,335	(34,750)
- Profit for the year	154,235	106,960	81,849	16,884	359,928
Total gross loans and advances to customers reported	2,475,392	4,233,153	1,844,672	-	8,553,217
Total customer accounts reported	2,410,862	4,378,265	1,027,690	-	7,816,817
Total credit related commitments and performance guarantees	1,160,517	229,178	199,662	-	1,589,357

28. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2016					
- Interest income	160,998	386,193	141,533	77,702	766,426
- interest expense	(45,206)	(101,520)	(8,114)	(121,133)	(275,973)
- Inter-segment interest income (expense)	(22,186)	(34,056)	(36,752)	92,994	-
- Net interest income	93,606	250,617	96,667	49,563	490,453
- Fee and commission income	21,884	100,637	16,331	3,948	142,800
- Fee and commission expense	(3,977)	(42,905)	(4,689)	(961)	(52,532)
- Net Fee and commission income	17,907	57,732	11,642	2,987	90,268
- Insurance Profit	-	-	-	256	256
- Net gains from trading in foreign currencies	23,945	17,817	26,271	2,236	70,269
- Net losses from foreign exchange translation	-	-	-	(2,507)	(2,507)
- Net losses from derivative financial instruments	-	-	-	(206)	(206)
- Net gains from disposal of available for sale investment securities	-	-	-	9,293	9,293
- Other operating income	9,837	5,772	1,076	6,551	23,236
- Other operating non-interest income	33,782	23,589	27,347	15,623	100,341
- Provision for loan impairment	48,948	(73,010)	(25,140)	-	(49,202)
- Provision for performance guarantees and credit related commitments	(388)	(902)	519	-	(771)
- Provision for impairment of investments in finance lease	-	-	-	(558)	(558)
- Provision for impairment of other financial assets	(863)	(207)	(38)	(1,745)	(2,853)
- Impairment of investment securities available for sale	-	-	-	(11)	(11)
- Profit before administrative and other expenses and income taxes	192,992	257,819	110,997	65,859	627,667
- Staff costs	(23,068)	(100,888)	(28,188)	(20,077)	(172,221)
- Depreciation and amortisation	(1,062)	(21,560)	(3,507)	(1,953)	(28,082)
- Provision for liabilities and charges	-	-	-	(2,210)	(2,210)
- Administrative and other operating expenses	(5,944)	(59,365)	(12,793)	(31,373)	(109,475)
- Operating expenses	(30,074)	(181,813)	(44,488)	(55,613)	(311,988)
- Profit before tax	162,918	76,006	66,509	10,246	315,679
- Income tax expense	(24,513)	(7,407)	(10,325)	24,824	(17,421)
- Profit for the year	138,405	68,599	56,184	35,070	298,258
Total gross loans and advances to customers reported	2,062,229	3,680,576	1,615,920	-	7,358,725
Total customer accounts reported	1,875,576	3,747,775	831,598	-	6,454,949
Total credit related commitments and performance guarantees	802,971	188,574	155,275	-	1,146,820

28. SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
- Fee and commission income	**40,667**	**170,082**	**22,498**	**2,454**	**235,701**
- Other operating income	**19,691**	**8,658**	**748**	**2,341**	**31,438**
Total	**60,358**	**178,740**	**23,246**	**4,795**	**267,139**
Timing of revenue recognition:					
- At point in time	**56,397**	**160,555**	**22,950**	**4,790**	**244,692**
- Over time	**3,961**	**18,185**	**296**	**5**	**22,447**

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

In thousands of GEL	**31 December 2018**	31 December 2017	31 December 2016
Total segment assets (gross loans and advances to customers)	**10,372,582**	8,553,217	7,358,725
Credit loss allowance (provision for loan impairment for comparatives)	**(334,130)**	(227,864)	(225,023)
Cash and cash equivalents	**1,166,911**	1,431,477	945,180
Mandatory cash balances with National Bank of Georgia	**1,422,809**	1,033,818	990,642
Due from other banks	**47,316**	39,643	24,725
Investment securities measured at fair value through other comprehensive income	**1,005,239**	-	-
Investment securities available for sale (comparatives only	**-**	657,938	430,703
Bonds carried at amortised cost	**654,203**	449,538	372,956
Current income tax prepayment	**2,116**	19,084	7,430
Deferred income tax asset	**2,097**	2,855	3,511
Other financial assets	**167,518**	146,144	94,627
Investments in finance leases	**203,802**	143,836	95,031
Other assets	**192,792**	156,651	171,263
Premises and equipment	**367,504**	366,913	314,032
Intangible assets	**109,220**	83,492	60,957
Investment properties	**84,296**	79,232	95,615
Goodwill	**31,286**	28,658	28,658
Investments in Subsidiaries and Associates	**2,432**	1,278	-
Total assets per statement of financial position	**15,497,993**	12,965,910	10,769,032

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

In thousands of GEL	**31 December 2018**	31 December 2017	31 December 2016
Total segment liabilities (customer accounts)	**9,352,142**	7,816,817	6,454,949
Due to credit institutions	**3,031,503**	2,620,714	2,197,577
Debt securities in issue	**13,343**	20,695	23,508
Current income tax liability	**63**	447	2,577
Deferred income tax liability	**22,237**	602	5,646
Provisions for liabilities and charges	**18,767**	13,200	16,026
Other financial liabilities	**98,714**	91,753	50,998
Other liabilities	**104,337**	84,440	66,739
Subordinated debt	**650,919**	426,788	368,381
Total liabilities per statement of financial position	**13,292,025**	11,075,456	9,186,401

29. INTEREST INCOME AND EXPENSE

In thousands of GEL	**2018**	2017	2016
Interest income calculated using effective interest method			
Loans and advances to customers	**1,123,972**	919,796	688,724
Bonds carried at amortised cost	**40,625**	32,328	30,714
Investment securities available for sale	**-**	43,735	25,707
Investment securities measured at fair value through OCI	**57,057**	-	-
Due from other banks	**23,744**	14,807	4,550
Other interest income			
Investments in leases	**38,837**	23,273	16,566
Other	**-**	-	165
Total interest income	**1,284,235**	1,033,939	766,426
Interest expense			
Customer accounts	**266,741**	233,884	154,840
Due to credit institutions	**196,498**	157,122	85,030
Subordinated debt	**41,571**	36,975	34,325
Debt securities in issue	**1,403**	1,943	1,778
Total interest expense	**506,213**	429,924	275,973
Net interest income	**778,022**	604,015	490,453

In the year ended 31 December 2018 the interest accrued on impaired loans amounted to GEL 41,373 thousand (2017: 16,332 thousand; 2016: 23,825 thousand).

30. FEE AND COMMISSION INCOME AND EXPENSE

In thousands of GEL	**2018**	2017	2016
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**106,067**	82,525	61,115
- Settlement transactions	**70,720**	59,739	43,434
- Guarantees issued	**19,815**	15,121	11,699
- Cash transactions	**17,147**	17,424	13,013
- Issuance of letters of credit	**6,463**	5,735	6,215
- Foreign exchange operations	**2,183**	1,339	1,277
- Other	**13,306**	12,061	6,047
Total fee and commission income	**235,701**	193,944	142,800
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**55,893**	46,360	34,906
- Settlement transactions	**8,669**	7,421	5,795
- Cash transactions	**5,180**	4,393	2,633
- Guarantees and LOC received	**2,863**	2,873	2,420
- Self-service and POS terminal transactions	**34**	6,436	4,692
- Other	**5,532**	500	2,086
Total fee and commission expense	**78,171**	67,983	52,532
Net fee and commission income	**157,530**	125,961	90,268

31. OTHER OPERATING INCOME

In thousands of GEL	**2018**	2017	2016
Gain from sale of investment properties	**9,781**	4,353	2,623
Revenues from operational leasing	**6,544**	6,544	5,772
Warrant option	**2,677**	-	-
Gain from sale of inventories of repossessed collateral	**2,577**	2,383	2,382
Revenues from sale of cash-in terminals	**1,715**	1,093	1,100
Revenues from non-credit related fines	**683**	1,408	658
Gain on disposal of premises and equipment	**352**	1,017	208
Gain from sale of receivables	**225**	4,090	58
Reimbursement of taxes	**-**	2,486	349
Gain from marketing promotional services	**-**	2,077	-
Recovery from repayment of purchased impaired loans	**-**	-	4,995
Administrative fee income from international financial institutions	**-**	-	644
Other	**6,884**	6,346	4,447
Total other operating income	**31,438**	31,797	23,236

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the inventories of repossessed collateral disposed in the year ended 31 December 2018 was GEL 33,295 thousand (2017: GEL 24,284 thousand; 2016: GEL 26,972 thousand).

32. STAFF COSTS

In thousands of GEL	**2018**	2017	2016
Salaries and bonuses	**190,304**	182,784	146,840
Share based compensation	**20,092**	15,662	22,053
Other compensation cost	**9,958**	4,654	3,328
Salaries and other employee benefits	**220,354**	203,100	172,221

In 2018 the monthly average number of persons employed by the Group was 7,170 people (2017: 6,993; 2016: 5,537). Breakdown of monthly average number of employees by categories is as follows:

	2018	2017	2016
Headquarters*	**2,837**	2,788	2,243
Branches*	**3,824**	3,773	2,902
Other administrative staff **	**509**	432	392

* Under monthly average number of employees in headquarters and branches employees in JSC TBC Bank, JSC Bank Republic, JSC TBC Insurance, Bank Constanta JSC and LLC TBC Kredit's are considered.

** Employees from other subsidiaries are considered under other administrative staff.

In 2018 monthly average number of employees in TBC PLC was 10 individuals (2017: 10; 2016: 9).

33. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of GEL	**2018**	2017	2016
Advertising and marketing services	**29,575**	18,430	13,796
Rent	**24,389**	23,132	18,294
Professional services	**13,951**	14,332	29,926
Intangible asset enhancement	**11,366**	10,304	7,446
Taxes other than on income	**6,757**	5,670	4,699
Utility services	**6,491**	6,067	5,108
Premises and equipment maintenance	**6,098**	5,413	3,889
Communications and supply	**5,173**	4,063	4,183
Stationery and other office expenses	**4,841**	4,936	3,448
Insurance	**4,589**	2,461	2,687
Business trip expenses	**2,273**	2,021	1,880
Transportation and vehicle maintenance	**2,043**	1,637	1,386
Security services	**2,040**	1,965	1,883
Personnel training and recruitment	**1,880**	1,444	1,272
Charity	**1,074**	1,045	884
Loss on disposal of premises and equipment	**860**	492	423
Loss on disposal of inventories	**137**	1,239	1,690
Impairment of intangible assets	**1**	1,916	2,043
Reversal of previously written-down current assets to fair value less costs to sell	**(1,026)**	(538)	(4,424)
Other	**18,423**	15,501	8,962
Total administrative and other operating expenses	**140,935**	121,530	109,475

Included in professional services, in the year ended 31 December 2016, are transaction costs related to the acquisition of Bank Republic, comprising GEL 8,000 thousands.

Auditors' remuneration is included within professional services expenses above and comprises:

In thousands of GEL	**Audit**	**Audit Related**	**Other Services**	**Total**
2018				
Audit of TBC Bank Group and subsidiaries annual financial statements	**2,310**	**-**	**-**	**2,310**
Review of TBC Bank Group and subsidiaries interim financial statements	**-**	**366**	**-**	**366**
Other assurance services	**-**	**-**	**114**	**114**
Total auditor's remuneration	**2,310**	**366**	**114**	**2,790**
2017				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,700	-	-	1,700
Review of TBC Bank Group and subsidiaries interim financial statements	-	251	-	251
Other assurance services	-	-	231	231
Total auditor's remuneration	1,700	251	231	2,182
2016				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,588	-	-	1,588
Review of TBC Bank Group and subsidiaries interim financial statements	-	360	-	360
Other assurance services	-	5	5,432	5,437
Total auditor's remuneration	1,588	365	5,432	7,385

Included in Other assurance services as of 31 December 2016, GEL 3,797 thousands is attributable to reporting accountant fees related to listing of TBCG shared on LSE.

34. INCOME TAXES

Income tax expenses comprises of the following:

In thousands of GEL	**2018**	2017	2016
Current tax charge	**52,914**	39,313	36,601
Deferred tax (credit)/charge	**19,851**	(4,563)	(19,180)
Income tax expense for the year	**72,765**	34,750	17,421

The income tax rate applicable to the majority of the Group's income was 15% (2017: 15%; 2016: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2017: 15% - 20%; 2016: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	**2018**	2017	2016
Profit before tax	**510,200**	394,678	315,679
Theoretical tax charge at statutory rate (2018: 15%-20%; 2017: 15%-20%; 2016: 15%-20%)	**76,500**	59,119	46,703
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	**(16,869)**	(12,958)	(9,638)
- Non-deductible expenses	**(746)**	(117)	3,706
- Effect of change in tax legislation	**13,833**	(11,794)	(24,204)
- Other differences	**47**	500	854
Income tax expense for the year	**72,765**	34,750	17,421

Differences between IFRS as adopted by the EU and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2017: 15%; 2016: 15%) for Georgia and 20% for Azerbaijan and United Kingdom (2017: 20%; 2016: 20%).

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023.The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

34. INCOME TAXES CONTINUED

As of 31 December 2018, deferred tax assets/liabilities are re-measured to the amounts that are estimated to be utilized in the period from 1 January 2019 to 31 December 2022.

In thousands of GEL	1 January 2018	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2018
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	**(4,298)**	**(16,460)**	**(2,444)**	**(23,202)**
Loan to customers	**2,401**	**417**	**-**	**2,866**
Other financial assets	**2,266**	**301**	**-**	**2,421**
Other assets	**29**	**(29)**	**-**	**-**
Investment property	**(342)**	**342**	**-**	**-**
Due to credit institutions	**(816)**	**(2,825)**	**-**	**(3,641)**
Subordinated debt	**(23)**	**(47)**	**-**	**(70)**
Other financial liabilities	**(72)**	**31**	**-**	**(41)**
Other liabilities	**1,651**	**(787)**	**-**	**864**
Share based payment	**1,486**	**(823)**	**-**	**663**
Tax loss carried forward	**(29)**	**29**	**-**	**-**
Net deferred tax asset/(liability)	**2,253**	**(19,851)**	**(2,444)**	**(20,140)**
Recognised deferred tax asset	**2,855**	**(659)**	**-**	**2,097**
Recognised deferred tax liability	**(602)**	**(19,192)**	**(2,444)**	**(22,237)**
Net deferred tax asset/(liability)	**2,253**	**(19,851)**	**(2,444)**	**(20,140)**

In thousands of GEL	1 January 2017	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2017
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(5,323)	648	377	(4,298)
Loan impairment provision	(92)	2,400	-	2,401
Fair valuation of investment securities available for sale	165	483	(648)	-
Other financial assets	2,368	(104)	-	2,266
Other assets	39	(10)	-	29
Investment in leases	-	-	-	-
Investment property	(982)	640	-	(342)
Due to credit institutions	(1,295)	479	-	(816)
Subordinated debt	(85)	62	-	(23)
Other financial liabilities	197	(269)	-	(72)
Other liabilities	2,226	(575)	-	1,651
Share based payment	676	810	-	1,486
Tax loss carried forward	(29)	-	-	(29)
Net deferred tax asset/(liability)	(2,135)	4,563	(271)	2,253
Recognised deferred tax asset	3,511	(753)	-	2,855
Recognised deferred tax liability	(5,646)	5,316	(271)	(602)
Net deferred tax asset/(liability)	(2,135)	4,563	(271)	2,253

34. INCOME TAXES CONTINUED

In thousands of GEL	1 January 2016	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	Changes due to the business combination	31 December 2016
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(25,802)	11,112	11,011	(1,644)	(5,323)
Loan impairment provision	(9,167)	11,729	-	(2,574)	(92)
Fair valuation of investment securities available for sale	(1,595)	461	1,565	(267)	165
Other financial assets	5,952	(3,830)	-	246	2,368
Other assets	6,407	(5,734)	-	(634)	39
Investment in leases	(556)	556	-	-	-
Investment property	(4,247)	4,275	-	(1,010)	(982)
Due to credit institutions	(475)	(820)	-	-	(1,295)
Subordinated debt	(327)	242	-	-	(85)
Other financial liabilities	60	137	-	-	197
Other liabilities	1,311	1,146	-	(232)	2,226
Share based payment	741	(65)	-	-	676
Tax loss carried forward	-	(29)	-	-	(29)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,115)	(2,135)
Recognised deferred tax asset	1,546	1,719	-	246	3,511
Recognised deferred tax liability	(29,244)	17,461	12,576	(6,361)	(5,646)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,115)	(2,135)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

35. NET DEBT RECONCILIATION

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities			
In thousands of GEL	Other borrowed funds	Debt Securities in Issue	Subordinated debt	Total
Net debt at 1 January 2017	1,880,670	23,508	368,381	2,272,559
Cash flows	519,289	(3,251)	22,837	538,875
Foreign exchange adjustments	(13,266)	(1,505)	(765)	(15,536)
Other non-cash movements	147,803	1,943	36,335	186,081
Net debt at 31 December 2017	**2,534,496**	**20,695**	**426,788**	**2,981,979**
Cash flows	**79,390**	**(9,308)**	**171,781**	**241,863**
Foreign exchange adjustments	**70,883**	**554**	**9,958**	**81,395**
Other non-cash movements	**187,300**	**1,402**	**42,392**	**231,094**
Net debt at 31 December 2018	**2,872,069**	**13,343**	**650,919**	**3,536,331**

36 FINANCIAL AND OTHER RISK MANAGEMENT

TBC Bank Group's strong risk governance reflects the importance placed by the Board and the Group's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organization structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting & supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensures sustainability and resiliency of the business model and positioning of risk management as Group's competitive advantage and strategic enabler.

The TBC Bank Group's governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. The Risks, Ethics and Compliance Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the Board. Namely, the committee carries out following duties: 1) Review and assessment of the Group's risk management strategy, risk appetite and tolerance, risk management system and risk policies; 2) Review and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; 3) monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions; 4) Annual self-assessment of the committee's performance and reporting of the results to the Board; 5) Review of the key risk management framework and other policy documents and make recommendations to the Board for their approval.

On the Bank level, risk management is the duty of the Supervisory Board, which has the overall responsibility to set the tone at the top and monitor compliance with established objectives. At the same time, Management Board governs and directs Groups' daily activities.

Both the Supervisory Board and the management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. Management Board Risk Committee is established to guide group-wide risk management activities and monitor major risk trends to make sure risk profile complies with the established Risk Appetite of the Group. Operational Risk Committee makes decisions related to operational risk governance while Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

The Board, the Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which sets desired risk profile and respective risk limits for different economic environments. Risk Appetite ("RA") establishes monitoring and reporting responsibilities as well as escalation paths for different trigger events and limit breaches which as well prompt risk teams to establish and implement agreed mitigation actions. In order to effectively implement Risk Appetite in the Group's day-to-day operations, the RA metrics are cascaded into more granular business unit level limits. That way risk allocation is established across different segments and activities. The Board level oversight coupled with the permanent involvement of the Senior Management in TBC Group risk management ensures the clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

The daily management of individual risks is based on the principle of the three lines of defense. While business lines are primary risk owners, risk teams assume the function of the second line defense. This role is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees are established at operational levels in charge of making transaction-level decisions that comprise of component of clear and sophisticated delegations of the authority framework based on "four-eye principle". All new products/projects go through the risk teams to assure risks are analyzed comprehensively.

Such control arrangements guarantee that the Bank takes informed risk-taking decisions that are adequately priced, avoiding taking risks that are beyond the Group's established threshold. Within the Risk Organization the below teams manage the credit, liquidity, market, operational and other non-financial risks:

- Enterprise Risk Management (ERM);
- Credit Risk Management;
- Underwriting (Credit sanctioning);
- Restructuring and Collections;
- Financial Risk Management;
- Operational Risk Management.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The strong and independent structure enables fulfillment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

In addition to the above-mentioned risk teams, the Compliance Department (reporting directly to CEO) is specifically in charge of AML and compliance risk management. As the third line of defense, the Internal Audit Department provides an independent and objective assurance and recommendations to Group that facilitates further improvement of operations and risk management.

For the management of each significant risk, the Bank puts in place specific policies and procedures, governance tools and techniques, methodologies for risk identification, assessment and quantification. Sound risk reporting systems and IT infrastructure are important tools for efficient risk management of TBC Bank. Thus, significant emphasis and investments are made by the Bank to constantly drive the development of required solutions. Comprehensive reporting framework is in place for the Management Board, the Supervisory Board and the Board that enables intense oversight over risk developments and taking early remedial actions upon necessity.

Beyond the described risk governance components, compensation system features one of the most significant tools for introducing incentives for staff, aligned with the Bank's long term interests to generate sustainable risk-adjusted returns. The risk Key Performance Indicators ("KPIs") are incorporated into both the business line and the risk staff remunerations. The performance management framework differentiates risk staff incentives to safeguard the independence from business areas that they supervise and at the same time enable attraction and maintenance of qualified professionals. For that purpose, the Bank overweighs risk KPIs for risk and control staff and caps the share of variable remuneration.

Credit risk. The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to note 38.

Credit risks include: risks arising from transactions with individual counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with individual counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality;
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected borrowers, or loan concentration in certain economic industries;
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Group's portfolio;
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral.

Comprehensive risk management methods and processes are established as part of the Group's risk management framework to manage credit risk effectively. The main principles for Group's credit risk management are: establish a prudent credit risk environment; operate under a sound credit-granting process; and maintain efficient processes for credit risk identification, measurement, control and monitoring. Respective policies and procedures establish a framework for lending decisions reflecting the Group's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Credit Approval: The Group strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The concept of three lines of defense is embedded in the credit risk assessment framework, with a clear segregation of duties among the parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan; whereas smaller retail and micro loans are mostly assessed in an automated way applying respective scoring models for the loan approval. Lending guidelines for business borrowers have been tailored to individual economic sectors, outlining key lending criteria and target ratios within each industry.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Credit Approval (contiuned): The Loan Approval Committees are responsible to review the credit applications and approve the credit products. Different Loan Approval Committees with clearly defined delegation authority are in place for the approval of credit exposures to Corporate, MSME and Retail customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers or exceeding 5% of the Bank's regulatory capital requires the review and the approval of the Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Credit Risk Monitoring: The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react timely 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 they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolios risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

Complex monitoring system is in place for monitoring of individual counterparties with frequency of monitoring depending on the borrower's risk profile and exposure. 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. Watch category is used as one of the qualitative indicators for transferring of exposures to stage 2 for the corporate and SME borrowers. For retail and micro borrowers along with other portfolio level indicators, portfolio breakdown across risk categories is monitored on a regular basis. In case there are indicators that portfolio distribution across risk categories deteriorates above the predefined threshold it might trigger transferring the respective portfolio to stage 2, as long as deterioration signs are in place.

Reports relating to the credit quality of the credit portfolio are presented to the Board's Risk, Ethics and Compliance Committees on a quarterly basis. By comparing current data with historical figures and analysing forecasts, the management believes that it is capable identifying risks and responding to them by amending its policies in a timely manner.

Credit Risk Mitigation: Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Group uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigation factors is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor.

A centralised unit for collateral management governs the Group's view and strategy in relation to collateral management and ensures that collateral serves as an adequate mitigating factor for credit risk management purposes. The collateral management framework consists of a sound independent appraisal process, haircut system throughout the underwriting process, monitoring and revaluations.

Credit Risk Restructuring and Collection: A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments. The Bank differentiates between two types of restructuring considering the severity of financial weakness of the borrowers. For the measurement of ECL, restructured borrowers may be classified either in Stage 2 or Stage 3. The primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category or to Stage 1. The sophistication and complexity of rehabilitation process differs based on the type and size of exposure.

A centralised monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Correcting the delinquency at early stage limits the amount of exposures becoming past due more than 30 days (one of the criteria indicating SICR) and transferred to Stage 2.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Credit Risk Restructuring and Collection: Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

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;
- Default – exposures in default, with observed credit impairment.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The rating models are regularly reviewed and back tested on actual default data. The Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

Expected credit loss (ECL) measurement: ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given 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 credit-impaired 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 credit-impaired. The exposures for which the credit-impaired 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 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. For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. 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.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Definition of default (contiuned): Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Grace period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage 2 from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

Significant increase in credit risk ("SICR") Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

Quantitative criteria

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

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 credit impaired;
- 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.

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

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

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

The key principles of calculating the credit risk parameters:

Exposure at default (EAD). The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. For revolving products, the Bank 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. 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.

Forward-looking information. The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy with weights of 50%, 25% and 25% assigned to each scenario respectively.

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

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

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2018 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	650,575	515,159	1,177	1,166,911
Due from other banks	28,418	12,852	6,046	47,316
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	1,422,809
Loans and advances to customers	9,526,939	121,713	389,800	10,038,452
Investment securities measured at fair value through OCI	1,004,564	-	675	1,005,239
Bonds carried at amortised cost	654,203	-	-	654,203
Investments in leases	202,850	-	952	203,802
Other financial assets	166,899	329	290	167,518
Total financial assets	13,657,257	650,053	398,940	14,706,250
Non-financial assets	788,042	55	3,646	791,743
Total assets	14,445,299	650,108	402,586	15,497,993
Liabilities				
Due to credit institutions	1,154,327	1,811,299	65,877	3,031,503
Customer accounts	7,790,236	697,753	864,153	9,352,142
Debt securities in issue	7,927	-	5,416	13,343
Other financial liabilities	98,379	296	39	98,714
Subordinated debt	94,264	420,031	136,624	650,919
Total financial liabilities	9,145,133	2,929,379	1,072,109	13,146,621
Non-financial liabilities	144,386	525	493	145,404
Total liabilities	9,289,519	2,929,904	1,072,602	13,292,025
Net balance sheet position	5,155,780	(2,279,796)	(670,016)	2,205,968
Performance guarantees	684,810	291,795	219,207	1,195,812
Credit related commitments	870,446	3,751	1,638	875,835

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2017 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	820,647	608,728	2,102	1,431,477
Due from other banks	27,183	8,733	3,727	39,643
Mandatory cash balances with National Bank of Georgia	1,033,818	-	-	1,033,818
Loans and advances to customers	7,960,107	67,805	297,441	8,325,353
Investment securities available for sale	657,068	-	870	657,938
Bonds carried at amortised cost	449,538	-	-	449,538
Investments in leases	143,836	-	-	143,836
Other financial assets	145,798	141	205	146,144
Total financial assets	11,237,995	685,407	304,345	12,227,747
Non-financial assets	733,417	55	4,691	738,163
Total assets	11,971,412	685,462	309,036	12,965,910
Liabilities				
Due to credit institutions	1,069,211	1,535,644	15,859	2,620,714
Customer accounts	6,499,134	694,821	622,862	7,816,817
Debt securities in issue	7,821	-	12,874	20,695
Other financial liabilities	90,649	474	630	91,753
Subordinated debt	62,508	232,263	132,017	426,788
Total financial liabilities	7,729,323	2,463,202	784,242	10,976,767
Non-financial liabilities	96,759	1,084	846	98,689
Total liabilities	7,826,082	2,464,286	785,088	11,075,456
Net balance sheet position	4,145,330	(1,778,824)	(476,052)	1,890,454
Performance guarantees	387,890	151,502	72,905	612,297
Credit related commitments	968,019	2,996	6,045	977,060

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2016 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	549,279	389,223	6,678	945,180
Due from other banks	5,874	18,851	-	24,725
Mandatory cash balances with National Bank of Georgia	990,642	-	-	990,642
Loans and advances to customers	6,923,037	88,616	122,049	7,133,702
Investment securities available for sale	429,985	-	718	430,703
Bonds carried at amortised cost	372,956	-	-	372,956
Investments in leases	95,031	-	-	95,031
Other financial assets	94,398	229	-	94,627
Total financial assets	9,461,202	496,919	129,445	10,087,566
Non-financial assets	676,665	29	4,772	681,466
Total assets	10,137,867	496,948	134,217	10,769,032
Liabilities				
Due to credit institutions	718,699	1,408,693	70,185	2,197,577
Customer accounts	5,421,782	530,370	502,797	6,454,949
Debt securities in issue	13,261	-	10,247	23,508
Other financial liabilities	49,092	1,286	620	50,998
Subordinated debt	-	233,657	134,724	368,381
Total financial liabilities	6,202,834	2,174,006	718,573	9,095,413
Non-financial liabilities	89,298	1,098	592	90,988
Total liabilities	6,292,132	2,175,104	719,165	9,186,401
Net balance sheet position	3,845,735	(1,678,156)	(584,948)	1,582,631
Performance guarantees	274,614	56,406	95,588	426,608
Credit related commitments	706,646	10,175	3,391	720,212

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As of 31 December 2018, the Bank maintained an aggregate open currency position of 7.6% of regulatory capital (2017: 1.5%; 2016: 3.2%). 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.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. Under the ICAAP framework the Bank developed methodology 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 all provisions to be denominated in the local currency. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented. In addition, the regulatory requirement effect of GEL 77.8 million and treasury FX short-term operation effect of GEL 37.5 million are excluded from USD OCP calculation purposes:

	As of 31 December 2018			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Georgian Laris	**5,920,867**	**4,663,300**	**86,122**	**1,343,689**
US Dollars	**7,309,173**	**7,445,413**	**323,306**	**187,066**
Euros	**1,375,295**	**948,398**	**(409,565)**	**17,332**
Other	**100,915**	**89,498**	**(458)**	**10,959**
Total	**14,706,250**	**13,146,609**	**(595)**	**1,559,046**

	As of 31 December 2017				As of 31 December 2016			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Laris	4,814,429	3,767,858	164,521	1,211,092	3,484,840	2,478,715	9,394	1,015,519
US Dollars	6,475,155	6,299,024	(153,449)	22,682	5,821,734	5,848,266	(8,905)	(35,437)
Euros	816,565	805,153	(9,315)	2,097	690,728	697,568	(13)	(6,853)
Other	121,579	104,732	(899)	15,948	90,264	70,864	(288)	19,112
Total	12,227,728	10,976,767	858	1,251,819	10,087,566	9,095,413	188	992,341

To assess the currency risk the Bank performs a value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by possible worst movement of currency rates against the Georgian Lari, with all other variables held constant. To identify the maximum expected losses resulting from currency fluctuations, a 99% confidence level is defined based on the monthly variations in exchange rates over 3 year look-back period. During the years ended 31 December 2018, 2017 and 2016, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Maximum loss (VAR, 99% confidence level)	**(8,890)**	(2,206)	(1,184)
Maximum loss (VAR, 95% confidence level)	**(6,162)**	(1,462)	(868)

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 most loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank used to enter has also entered into interest rate swap agreements or apply for other interest rate risk hedging instruments in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Interest rate risk (continued). The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Currency and interest rate swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables. The tables consider both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros are calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates are considered in case of USD and EUR respectively. Therefore, they have impact on the TBC's Net interest income in case of both upward and downward shift of interest rates.

In thousands of GEL	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2018					
Total financial assets	**4,782,800**	**3,610,949**	**1,017,711**	**5,295,712**	**14,707,172**
Total financial liabilities	**4,563,135**	**3,337,999**	**948,719**	**4,297,701**	**13,147,554**
Net interest sensitivity gap as of 31 December 2018	**219,665**	**272,950**	**68,992**	**998,011**	**1,559,618**
31 December 2017					
Total financial assets	3,427,631	2,449,029	1,069,488	5,302,335	12,248,483
Total financial liabilities	4,094,978	2,634,518	1,038,842	3,229,143	10,997,481
Net interest sensitivity gap as of 31 December 2017	(667,347)	(185,489)	30,646	2,073,192	1,251,002
31 December 2016					
Total financial assets	2,708,398	1,798,079	1,013,269	4,606,991	10,126,737
Total financial liabilities	3,601,798	2,009,575	1,021,631	2,501,580	9,134,584
Net interest sensitivity gap as of 31 December 2016	(893,400)	(211,496)	(8,362)	2,105,411	992,153

As of 31 December 2018, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 4.8 million higher (2017: GEL 7.4 million; 2016 GEL 9,5 million;), mainly as a result of lower interest income on variable interest assets. Other comprehensive income would have been GEL 8.6 million higher (2017: GEL 6.1 million; 2016: GEL 1.5 million), as a result of an increase in the fair value of fixed rate financial assets measured at fair value through other comprehensive income and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 4.8 million lower (2017: GEL 7.4 million; 2016: GEL 9.5 million), mainly as a result of higher interest income on variable interest assets. Other comprehensive income would have been GEL 8.2 million lower (2017: GEL 5.9 million; 2016: GEL 2.1 million), as a result of decrease in the fair value of fixed rate financial assets measured at fair value through other comprehensive income.

With the assistance of Ernst & Young LLC the Bank has developed an advanced model to manage the interest rate risk on a standalone basis. The interest rate risk analysis is performed monthly by the Financial Risk Management Department.

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. Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes.

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.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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 internally developed Liquidity Coverage ratio and a Net Stable Funding ratio models, both under Basel III, guidelines. In addition the Bank performs stress tests and "what-if" scenario analysis and minimum liquidity ratio defined by the NBG. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank also monitors compliance with NBG LCR limits.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis. TBC Bank also stress tests the results of liquidity through large shock scenarios provided by the NBG.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with NBG's accounting rules.

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 retail deposits in its strategy and sets the loan to deposit ratio limits.

The loan to deposit ratio (defined as total value of net loans divided by total value of deposits) stood at 107.3%, 106.5% and 110.5%, at the 31 December 2018, 2017 and 2016 respectively.

Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage it, TBC Bank follows Basel III guidelines on high-quality liquidity asset eligibility in order to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC Bank has a ***liquidity contingency plan***, which is part of the Bank's overall prudential liquidity policy and is designed to ensure that TBC Bank is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

The Bank calculates its liquidity ratios on a daily basis in accordance with the NBG's requirements.

The Liquidity Ratio: The limit is set by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months.

NBG LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows defined as per NBG guidelines. The limit is set by the NBG as per total LCR also by currency (GEL, FX). To promote larization in the country of Georgia, NBG defines lower limit for GEL LCR than that for FX LCR. In addition, NBG mandatory Regulatory reserves in FX currency is only considered at 75% per LCR calculation purposes. NBG guidelines apply higher withdrawal rates to the deposits and off-balance instruments depending on the clients group's concentration than those rates defined per Basel III requirements.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2018	2017	2016
Average Liquidity Ratio	**33.3%**	32.5%	30.8%
Total Liquidity Coverage Ratio	**113.9%**	112.7%	-
GEL Liquidity Coverage Ratio	**102.5%**	95.6%	-
FX Liquidity Coverage Ratio	**121.1%**	122.9%	-

According to daily cash flow forecasts and the surplus in liquidity standing, the Treasury Department places funds in short-term liquid assets , largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2018' 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 of 31 December 2018 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	**950,084**	**372,517**	**1,909,587**	**187,454**	**3,419,642**
Customer accounts – individuals	**3,152,851**	**1,408,710**	**628,831**	**27,397**	**5,217,789**
Customer accounts – other	**3,821,862**	**208,250**	**137,275**	**195,007**	**4,362,394**
Other financial liabilities	**77,522**	**21,192**	**-**	**-**	**98,714**
Subordinated debt	**5,267**	**71,519**	**388,594**	**588,197**	**1,053,577**
Debt securities in issue	**366**	**13,847**	**-**	**-**	**14,213**
Gross settled forwards	**567,259**	**16,008**	**-**	**-**	**583,267**
Performance guarantees	**119,959**	**349,354**	**671,333**	**55,166**	**1,195,812**
Financial guarantees	**9,932**	**44,703**	**51,337**	**-**	**105,972**
Other credit related commitments	**769,863**	**-**	**-**	**-**	**769,863**
Total potential future payments for financial obligations	**9,474,965**	**2,506,100**	**3,786,957**	**1,053,221**	**16,821,243**

The maturity analysis of financial liabilities as of 31 December 2017 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	1,142,865	418,613	1,167,970	151,417	2,880,865
Customer accounts – individuals	2,532,039	1,378,835	522,104	40,727	4,473,705
Customer accounts – other	3,068,027	192,852	133,236	80,976	3,475,091
Other financial liabilities	82,685	8,808	260	-	91,753
Subordinated debt	5,060	74,191	198,042	346,703	623,996
Debt securities in issue	504	8,814	13,687	-	23,005
Gross settled forwards	176,822	5,509	-	-	182,331
Performance guarantees	55,914	241,460	306,788	8,135	612,297
Financial guarantees	52,256	122,014	74,457	155	248,882
Other credit related commitments	728,178	-	-	-	728,178
Total potential future payments for financial obligations	7,844,350	2,451,096	2,416,544	628,113	13,340,103

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities as of 31 December 2016 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	837,188	310,447	1,103,959	168,271	2,419,865
Customer accounts – individuals	2,147,015	1,284,067	360,609	39,578	3,831,269
Customer accounts – other	2,287,043	238,551	134,293	74,180	2,734,067
Other financial liabilities	46,971	2,883	1,144	-	50,998
Subordinated debt	4,853	29,510	238,224	360,551	633,138
Debt securities in issue	616	6,584	22,745	-	29,945
Gross settled forwards	16,084	3,641	369	-	20,094
Performance guarantees	60,552	154,616	210,595	845	426,608
Financial guarantees	117,994	102,311	50,657	140	271,102
Other credit related commitments	449,110	-	-	-	449,110
Total potential future payments for financial obligations	5,967,426	2,132,610	2,122,595	643,565	10,866,196

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Maturity analysis (continued). As of 31 December 2018 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,166,911	-	-	-	1,166,911
Due from other banks	27,153	11,075	9,088	-	47,316
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	-	1,422,809
Loans and advances to customers	1,090,521	2,056,149	4,152,436	2,739,346	10,038,452
Investment securities measures at fair value through OCI	1,005,239	-	-	-	1,005,239
Bonds carried at amortised cost	119,489	92,877	368,843	72,994	654,203
Finance lease receivables	31,133	56,432	113,087	3,150	203,802
Other financial assets	131,586	34,268	1,664	-	167,518
Total financial assets	**4,994,841**	**2,250,801**	**4,645,118**	**2,815,490**	**14,706,250**
Liabilities					
Due to Credit institutions	933,511	271,993	1,653,575	172,424	3,031,503
Customer accounts	997,594	128,395	-	8,226,153	9,352,142
Debt securities in issue	112	13,231	-	-	13,343
Other financial liabilities	77,522	21,192	-	-	98,714
Subordinated debt	3,048	23,246	182,986	441,639	650,919
Total financial liabilities	**2,011,787**	**458,057**	**1,836,561**	**8,840,216**	**13,146,621**
Credit related commitments and performance guarantees					
Performance guarantees	4,393	-	-	-	4,393
Financial guarantees	5,424	-	-	-	5,424
Other credit related commitments	103,029	-	-	-	103,029
Credit related commitments and performance guarantees	112,846	-	-	-	112,846
Net liquidity gap as of 31 December 2018	**2,870,208**	**1,792,744**	**2,808,557**	**(6,024,726)**	**1,446,783**
Cumulative gap as of 31 December 2018	**2,870,208**	**4,662,952**	**7,471,509**	**1,446,783**	

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

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2017 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,431,477	-	-	-	1,431,477
Due from other banks	32,845	3,071	3,727	-	39,643
Mandatory cash balances with National Bank of Georgia	1,033,818	-	-	-	1,033,818
Loans and advances to customers	1,031,608	1,767,797	3,438,180	2,087,768	8,325,353
Investment securities available for sale	657,938	-	-	-	657,938
Bonds carried at amortised cost	81,859	105,956	216,177	45,546	449,538
Finance lease receivables	22,896	38,526	82,414	-	143,836
Other financial assets	110,604	22,207	13,333	-	146,144
Total financial assets	4,403,045	1,937,557	3,753,831	2,133,314	12,227,747
Liabilities					
Due to Credit institutions	1,137,076	351,381	990,480	141,777	2,620,714
Customer accounts	844,123	136,821	-	6,835,873	7,816,817
Debt securities in issue	47	7,778	12,870	-	20,695
Other financial liabilities	82,685	8,808	260	-	91,753
Subordinated debt	3,471	49,694	97,372	276,251	426,788
Total financial liabilities	2,067,402	554,482	1,100,982	7,253,901	10,976,767
Credit related commitments and performance guarantees					
Performance guarantees	2,067	-	-	-	2,067
Financial guarantees	8,239	-	-	-	8,239
Other credit related commitments	105,268	-	-	-	105,268
Credit related commitments and performance guarantees	115,574	-	-	-	115,574
Net liquidity gap as of 31 December 2017	2,220,069	1,383,075	2,652,849	(5,120,587)	1,135,406
Cumulative gap as of 31 December 2017	2,220,069	3,603,144	6,255,993	1,135,406	

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Maturity analysis (continued). As of 31 December 2016 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	945,180	-	-	-	945,180
Due from other banks	4,417	5,210	5,544	9,554	24,725
Mandatory cash balances with National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	1,119,128	1,481,095	2,949,227	1,584,252	7,133,702
Investment securities available for sale	430,703	-	-	-	430,703
Bonds carried at amortised cost	123,763	94,250	128,201	26,742	372,956
Finance lease receivables	18,770	30,600	45,661	-	95,031
Other financial assets	64,328	10,595	19,704	-	94,627
Total financial assets	3,696,931	1,621,750	3,148,337	1,620,548	10,087,566
Liabilities					
Due to Credit institutions	796,148	260,046	986,857	154,526	2,197,577
Customer accounts	723,340	154,513	-	5,577,096	6,454,949
Debt securities in issue	145	5,277	18,086	-	23,508
Other financial liabilities	46,971	2,883	1,144	-	50,998
Subordinated debt	3,333	4,893	125,174	234,981	368,381
Total financial liabilities	1,569,937	427,612	1,131,261	5,966,603	9,095,413
Credit related commitments and performance guarantees					
Performance guarantees	2,635	-	-	-	2,635
Financial guarantees	8,049	-	-	-	8,049
Other credit related commitments	45,854	-	-	-	45,854
Credit related commitments and performance guarantees	56,538	-	-	-	56,538
Net liquidity gap as of 31 December 2016	2,070,456	1,194,138	2,017,076	(4,346,055)	935,615
Cumulative gap as of 31 December 2016	2,070,456	3,264,594	5,281,670	935,615	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. VAR as of December 2018 equaled 10.9% (2017: 12.3%; 2016: 13.6%). The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-1 months), (0-3 months), (0-6 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

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

Operating environment. Most of the Group's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked on a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2019" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 6th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions. The domestic economic environment remains stable and the banking sector continues to grow, supported by broader macroeconomic stability and attractive business climate. As a result of strong macroeconomic performance, diversified sources of inflows and prudent macroeconomic policies, on February 22, 2019 Fitch Ratings

36 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

upgraded Georgia's sovereign credit rating from 'BB-' to 'BB' with stable outlook.

GDP growth stood at 4.8% YoY in 2018, per initial estimates of Geostat. The growth was broad-based across different sectors of the economy. Based on 9m quarterly released figures, 4.8% higher value added YoY was mostly driven by trade and repairs (+5.7% YoY), real estate (+12.7% YoY), transport and communications (+6.8% YoY), financial intermediation (+15.8% YoY) and hotels and restaurants (+7.3% YoY). The construction sector declined by 3.8% YoY over the same period, reflecting one-off factors related to the several large-scale infrastructure projects as well as slowdown in public spending.

The growth of inflows of exports, tourism and remittances remained strong in H1 2018 (+26.4% YoY in USD terms). Following the economic difficulties in Turkey, sanctions on Iran, and RUB weakness, the growth of inflows slowed in the second half of 2018 (+14.6% YoY), but still remained solid. As for the full year of 2018, the growth of total inflows amounted to 19.4 % YoY. CA balance continues to improve. Over the last four quarters ending Q3 2018 CA deficit to GDP ratio stood at 8.3% compared to the 8.8% in 2017. Improvement in CA deficit mostly reflects several factors, including continued positive trend in external inflows, normalization of FDI related imports as well as low fiscal spending. As a result of the improvement trend and strong seasonal effect, in Q3 2018 CA turned even to surplus at 0.3% of GDP.

FDI inflows declined by 27.2% YoY in 9m 2018 mostly reflecting one-offs related to the finalization of the BP's South Caucasus Pipeline Extension project.[1] From the sectors perspective, the decline was most pronounced in transport and communications (-70.6% YoY) and construction sectors, both to be primarily explained by the finalization of BP's project mentioned above. FDI inflows also declined in real estate (-47.8% YoY) and hotels and restaurants (-11.1% YoY) sector. At the same time, FDI inflows went up in manufacturing (+61.2% YoY), mining (+38.1% YoY), financial (+31.1% YoY) and energy (+30.1% YoY) sectors. FDI inflows remain the major source of financing for the CA deficit.

Fiscal policy remained contractionary throughout the year. Although the budget deficit amounted to an estimated 2.6% of GDP in 2018, the spending was concentrated mostly by the end of the year and primarily reflected the advance payments on infrastructure projects. The full impact of the spending on growth will be materialized later in coming months with the strongest effect likely in Q2 2019.

Loan growth remained solid in 2018 with the total bank loan portfolio expanding by 17.2% YoY at constant exchange rate. Lending was strong across the business as well as retail segments, albeit, sharp slowdown in non-mortgage retail lending was notable since the introduction of the regulation on unsecured lending in May 2018.

Annual CPI inflation was around the targeted level of 3% in 2018 with 4.3% in January and gradually declining to 1.5% by the end of 2018. The NBG decreased policy rate by 0.25 PP from 7.25% to 7.00% in July 2018. The central bank continued the normalization of the monetary policy in 2019 as well, cutting the policy rate by another 0.25 pp to 6.75% in January 2019. According to the announcement following the latest monetary policy committee meeting, NBG is expected to continue to normalize the policy stance at a slow pace, depending on the domestic demand as well as the external sector developments.

On the back of higher inflows, lower oil prices and likely weaker domestic demand, NBG continued to refill international reserves and purchased 65 mln USD in December, equivalent to an estimated 4.0% of the same month GDP. Overall, in 2018 NBG made 17 interventions and purchased 197.5 mln USD – an estimated 1.2% of GDP.

As for the exchange rates, as of the end of December 2018 GEL nominal exchange rate weakened against USD by 3.3% YoY and appreciated against EUR by 1.1% YoY. Over the same period, GEL nominal effective exchange rate appreciated by 8.0% while real effective exchange rate appreciation stood at 4.6%.

37 MANAGEMENT OF CAPITAL

The Group's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. Additionally, the Group's capital management objectives entail ensuring that the Bank complies with the capital requirements set by the Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the reports outlining their calculation and are reviewed and signed by the Bank's CFO and Deputy CFO.

The Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2016, 2017 and 2018.

1 https://www.bp.com/en_ge/bp-georgia/about-bp/bp-in-georgia/south-caucasus-pipeline--scp-.html

37 MANAGEMENT OF CAPITAL CONTINUED

In December 2017, the NBG has introduced updated capital framework that is more compliant with Basel III guidelines. Under updated capital framework capital requirements are divided into Pillar 1 and Pillar 2 buffers. Details regarding the capital buffers are outlined below:

- The capital conservation buffer (which was incorporated in minimum capital requirements) is separated and set at 2.5%;
- A systemic risk buffer will be introduced for systematically important banks over the 4 years period; A systemic risk buffer as of December 2018 equals to 1%;
- A countercyclical capital buffer is set at 0%;
- A currency induced credit risk (CICR) buffer replaced conservative weighting for un-hedged FX loans denominated in foreign currencies;
- Concentration buffer for sectoral and single borrower exposure will be introduced;
- The need for the net stress buffer will be assessed based on stress testing results provided by the Group;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator, is applied based on the Bank's specific risks.

In addition, based on the updated methodology, specific PTI (payment to income) and LTV (loan to value) thresholds were introduced. For the exposures which do not fall into pre-defined limits for PTI and LTV ratios, higher risk weights were applied.

NBG Basel II Capital adequacy ratio

Both, Tier 1 and Total capital adequacy ratios are calculated based on the Basel III methodology introduced by NBG. The details are described on page 277.

The table below presents the capital adequacy ratios as well as minimum requirements set by the NBG.

In thousands of GEL	**2018**	**2017**
Tier 1 Capital	**1,678,716**	1,437,218
Tier 2 Capital	**672,553**	448,069
Regulatory capital	**2,351,269**	1,885,287
Risk-weighted Exposures		
Credit Risk Weighted Exposures	**11,458,497**	9,754,146
Risk Weighted Exposures for Market Risk	**179,381**	28,802
Risk Weighted Exposures for Operational Risk	**1,516,993**	970,241
Total Risk-weighted Exposures	**13,154,871**	10,753,189
Minimum Tier 1 ratio	**11.8%**	10.3%
Tier 1 Capital adequacy ratio	**12.8%**	13.4%
Minimum total capital adequacy ratio	**16.7%**	12.9%
Total Capital adequacy ratio	**17.9%**	17.5%

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2017 are given in the tables below:

	2018	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	**4,181,199**	**1,625,289**
Gross Loans and accrued interests	**9,206,646**	**7,203,609**
Repossessed assets	**46,755**	**46,755**
Fixed assets and intangible assets	**508,582**	**287,403**
Other assets	**1,428,945**	**1,639,128**
minus general provision, penalty and interest provision	**(37,705)**	**(37,705)**
Total	**15,334,422**	**10,764,479**
Total Off-balance	**2,694,174**	**694,018**
Market Risk	**179,381**	**179,381**
Operational Risk	**809,063**	**1,516,993**
Total Amount	**19,017,040**	**13,154,871**

37 MANAGEMENT OF CAPITAL CONTINUED

	2017	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	3,510,760	1,275,017
Gross Loans and accrued interests	8,233,132	6,798,464
Repossessed assets	58,530	58,530
Fixed assets and intangible assets	437,878	264,768
Other assets	553,176	713,096
minus general provision, penalty and interest provision	(30,862)	(30,862)
Total	12,762,614	9,079,013
Total Off-balance	1,919,565	675,133
Market Risk	28,802	28,802
Operational Risk	517,462	970,241
Total Amount	15,228,443	10,753,189

For year ended 31 December 2016 under the NBG Basel II/III requirements, the Bank calculated its capital requirements and risk weighted assets separately for Pillar 1. The NBG provided detailed instructions of Pillar 1 calculations. The reporting started at the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	**2016**
Tier 1 Capital	1,041,270
Tier 2 Capital	380,751
Regulatory capital	1,422,021
Risk-weighted Exposures	
Credit Risk Weighted Exposures	9,399,140
Risk Weighted Exposures for Market Risk	45,689
Risk Weighted Exposures for Operational Risk	576,628
Total Risk-weighted Exposures	10,021,457
Minimum Tier 1 ratio	8.5%
Tier 1 Capital adequacy ratio	10.4%
Minimum total capital adequacy ratio	10.5%
Total Capital adequacy ratio	14.2%

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2016 is given in the table below:

	2016	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	2,397,259	1,086,262
Gross Loans and accrued interests	5,771,369	7,149,145
Repossessed assets	46,441	46,441
Fixed assets and intangible assets	328,184	273,176
Other assets	647,261	536,747
minus general provision, penalty and interest provision	(45,534)	(45,534)
Total	9,144,980	9,046,237
Total Off-balance	978,221	352,903
Market Risk	45,689	45,689
Operational Risk	403,640	576,628
Total Amount	10,572,530	10,021,457

37 MANAGEMENT OF CAPITAL CONTINUED

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements. These requirements include capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**2018**	2017	2016
Tier 1 capital			
Share capital	**542,204**	524,807	524,778
Retained earnings and disclosed reserves	**1,509,990**	1,254,331	983,387
Less: Goodwill	**(29,459)**	(26,892)	(26,892)
Non-controlling interest	**527**	4,735	4,383
Total tier 1 capital	**2,023,262**	1,756,981	1,485,656
Tier 2 capital			
Revaluation reserves	**58,995**	64,489	59,240
General Reserve	**129,739**	109,372	88,300
Subordinated debt (included in tier 2 capital)	**548,508**	355,944	323,087
Total tier 2 capital	**737,242**	529,805	470,627
Total capital	**2,760,504**	2,286,786	1,956,283
Credit risk weighted assets (including off-balance obligations)	**10,379,124**	8,749,752	7,064,035
Less: General Reserve	**(204,391)**	(118,492)	(136,721)
Market Risk	**210,916**	40,803	46,484
Total Risk-weighted assets	**10,385,649**	8,672,063	6,973,798
Minimum Tier 1 ratio	**4.0%**	4.0%	4.0%
Tier 1 Capital adequacy ratio	**19.5%**	20.3%	21.3%
Minimum total capital adequacy ratio	**8.0%**	8.0%	8.0%
Total Capital adequacy ratio	**26.6%**	26.4%	28.1%

Following the Basel I guidelines the General Reserve is defined by the management as the minimum among the following:

a) IFRS provisions created on loans without impairment trigger event;
b) 2% of loans without impairment trigger event;
c) 1.25% of total RWA (Risk Weighted Assets).

37 MANAGEMENT OF CAPITAL CONTINUED

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2018, 2017, 2016 are provided in the tables below:

In thousands of GEL	2018	
Risk weighted Exposures	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	**4,285,970**	**244,844**
Gross loans and accrued interests	**10,372,582**	**8,281,144**
Repossessed assets	**124,643**	**124,643**
Fixed assets and intangible assets	**504,035**	**474,576**
Other assets	**499,747**	**499,747**
Total	**15,786,977**	**9,624,954**
Total Off-balance	**2,674,697**	**754,170**
Less: Loan loss provision minus General Reserve	**(204,391)**	**(204,391)**
Market Risk	**210,916**	**210,916**
Total Amount	**18,468,199**	**10,385,649**

In thousands of GEL	2017	
Risk weighted Exposures	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	3,609,132	214,353
Gross loans and accrued interests	8,553,217	6,885,960
Repossessed assets	116,809	116,809
Fixed assets and intangible assets	476,027	449,136
Other assets	409,876	409,876
Total	13,165,061	8,076,134
Total Off-balance	1,907,457	673,618
Less: Loan loss provision minus General Reserve	(118,492)	(118,492)
Market Risk	40,803	40,803
Total Amount	14,994,829	8,672,063

In thousands of GEL	2016	
Risk weighted Exposures	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	2,762,892	133,527
Gross loans and accrued interests	7,358,725	5,609,312
Repossessed assets	90,873	90,873
Fixed assets and intangible assets	401,174	374,282
Other assets	373,118	373,118
Total	10,986,782	6,581,112
Total Off-balance	1,290,813	482,923
Less: Loan loss provision minus General Reserve	(136,721)	(136,721)
Market Risk	46,484	46,484
Total Amount	12,187,358	6,973,798

38. CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as it will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2018, 2017 and 2016 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as of 31 December 2018, the future minimum lease payments under non-cancellable operating leases over the next year amounted to GEL 11,022 thousand (31 December 2017: 6,479 thousand; 31 December 2016: 5,016 thousand).

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with all covenants as of 31 December 2018. In April 2017, the group had breached one of the covenants with a foreign financial institution lender. The group has obtained the waiver from the financial institution in June 2017, whereby the breach was retrospectively waived. As of 31 December 2016, TBC Kredit had breached certain borrowing covenants agreed with foreign financial institution lenders. The major reason for the breach was drastic devaluation of Azerbaijani Manat in February and December 2015. The Group was in compliance with all other covenants as of 31 December 2017 and 31 December 2016.

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

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

Outstanding credit related commitments are as follows:

In thousands of GEL	**2018**	**2017**	**2016**
Undrawn credit lines	**769,863**	728,178	449,110
Letters of credit issued	**105,972**	106,919	154,842
Financial guarantees issued	**-**	141,963	116,260
Total credit related commitments (before credit loss allowance)	**875,835**	977,060	720,212
Credit loss allowance for credit related commitments	**(5,424)**	(8,239)	(8,049)
Total credit related commitments	**870,411**	968,821	712,163

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2018 were GEL 344,360 thousand (2017: GEL 389,148 thousand; 2016: GEL 169,831 thousand).

38. CONTINGENCIES AND COMMITMENTS CONTINUED

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.

Fair value of credit related commitments were GEL 5,424 thousand as of 31 December 2018 (2017: GEL 8,239 thousand; 2016: GEL 8,049 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

Capital expenditure commitments. As of 31 December 2018, the Group has contractual capital expenditure commitments amounting to GEL 12,210 thousand (2017: 7,816 thousand; 2016: 5,665 thousand).

In thousands of GEL	2018	2017	2016
Georgian Laris	**853,965**	618,544	409,498
US Dollars	**955,829**	734,970	545,621
Euros	**218,091**	166,304	101,892
Other	**43,762**	69,539	89,809
Total	**2,071,647**	1,589,357	1,146,820

39. NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2018:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank JSC including:	**0.12%**	**2,357**	**3,062**
TBC Leasing JSC	**0.39%**	**26**	**96**
TBC Kredit LLC*	**-**	**251**	**-**
United Financial Corporation JSC	**1.33%**	**59**	**517**
BG LLC**	**-**	**(88)**	**-**

*In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company.

**In 2018 the Group obtained de-facto control over BG LLC and the total return from the subsidiary have been attributable to the NCI.

The summarised financial information of these subsidiaries was as follows as of 31 December 2018:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Bank JSC	**7,421,134**	**8,031,716**	**9,955,303**	**3,385,828**	**1,066,089**	**433,051**	**448,749**	**(264,368)**
TBC Leasing JSC	**160,619**	**128,610**	**138,582**	**126,954**	**26,998**	**6,585**	**6,585**	**10,773**
TBC Kredit LLC	**19,639**	**14,987**	**13,961**	**10,813**	**3,177**	**1,836**	**1,836**	**(1,622)**
United Financial Corporation JSC	**8,711**	**6,646**	**3,284**	**-**	**12,401**	**4,427**	**4,427**	**(438)**
BG LLC	**8,964**	**1**	**60**	**8,993**	**123**	**(88)**	**(88)**	**63**

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2017:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank JSC including:	1.33%	5,518	29,255
TBC Leasing JSC	0.39%	14	70
TBC Kredit LLC	25%	275	4,165
United Financial Corporation JSC	1.33%	63	500

39. NON-CONTROLLING INTEREST CONTINUED

The summarised financial information of these subsidiaries was as follows as of 31 December 2017:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income/ (expense)	Cash flows
TBC Bank JSC	6,490,075	6,447,122	8,830,604	2,258,231	850,450	362,429	367,678	466,249
TBC Leasing JSC	111,169	87,928	95,988	85,262	15,236	3,436	3,436	2,450
TBC Kredit LLC	19,771	20,319	11,858	20,636	5,172	1,098	1,098	(3,631)
United Financial Corporation JSC	6,353	5,136	1,255	45	12,708	4,733	4,733	40

The following table provides information about each subsidiary with non-controlling interest as of 31 December 2016:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Bank JSC including:	1.52%	(887)	28,264
TBC Leasing JSC	0.39%	9	56
TBC Kredit LLC	25%	(2,865)	3,890
United Financial Corporation JSC	1.34%	50	436

The summarised financial information of these subsidiaries was as follows as of 31 December 2016:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income/ (expense)	Cash flows
TBC Bank JSC	5,492,825	5,268,934	7,105,314	2,084,656	679,912	302,491	303,031	224,421
TBC Leasing JSC	71,484	49,140	54,930	51,283	11,566	2,316	2,316	(5,425)
TBC Kredit LLC	20,649	19,458	16,034	17,867	8,367	(11,461)	(11,461)	(4,291)
United Financial Corporation JSC	9,271	5,800	9,114	45	11,979	3,737	3,737	(1,243)

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	**17,544**	**3,154**	**14,390**	**-**	**-**	**14,390**
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,544**	**3,154**	**14,390**	**-**	**-**	**14,390**
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	**21,426**	**3,154**	**18,272**	**-**	**-**	**18,272**
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**21,426**	**3,154**	**18,272**	**-**	**-**	**18,272**

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	29,308	2,605	26,703	-	-	26,703
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	29,308	2,605	26,703	-	-	26,703
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	12,964	2,605	10,359	-	-	10,359
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	12,964	2,605	10,359	-	-	10,359

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of GEL	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	26,959	2,158	24,801	-	-	24,801
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	26,959	2,158	24,801	-	-	24,801
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	14,563	2,158	12,405	-	-	12,405
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	14,563	2,158	12,405	-	-	12,405

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

41. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	**2018**	2017	2016
Fair value of gross settled currency swaps, included in other financial assets or due from banks	**1,490**	1,767	508
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**(2,085)**	(909)	(320)
Fair value of Interest rate swaps, included in other financial liabilities	**-**	(267)	(1,055)
Total	**(595)**	591	(867)

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term by their nature.

	2018		2017		2016	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD *payable on settlement (-)*	**-**	**(19,631)**	-	(166,326)	-	(13,125)
- USD receivable on settlement (+)	**105,753**	**-**	12,877	-	4,220	-
- GEL payable on settlement (-)	**-**	**(119,520)**	-	(1,360)	-	(1,604)
- GEL receivable on settlement (+)	**442,831**	**-**	165,881	-	10,998	-
- EUR *payable on settlement (-)*	**-**	**(441,617)**	-	(9,315)	-	(3,214)
- EUR receivable on settlement (+)	**32,052**	**-**	-	-	3,201	-
- Other payable on settlement (-)	**-**	**(1,621)**	-	(2,247)	-	(2,150)
- Other receivable on settlement (+)	**1,158**	**-**	1,348	-	1,862	-
Fair value of foreign exchange forwards and gross settled currency swaps	**581,794**	**(582,389)**	180,106	(179,248)	20,281	(20,093)
Net fair value of foreign exchange forwards and gross settled currency swaps		**(595)**	858		188	

Interest rate swaps. In March 2010 TBC Bank entered into an interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers the payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expired in November 2018. At the reporting date in 2017 the fair value of interest rate swaps was negative GEL 267 thousand; 2016: negative GEL 1,055 thousand).

Information on related party balances is disclosed in Note 44.

42. FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2018				31 December 2017				31 December 2016			
In thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities measured at fair value through other comprehensive income												
- Government notes	-	-	-	-	-	-	-	-	-	1,016	-	1,016
- Certificates of Deposits of National Bank of Georgia	-	14,982	-	14,982	-	7,728	-	7,728	-	36,002	-	36,002
- Corporate bonds	-	548,864	-	548,864	-	328,761	-	328,761	-	150,073	-	150,073
Netherlands Government Bonds	-	66,760	-	66,760	-	-	-	-	-	-	-	
- Ministry of Finance Treasury Bills	-	372,927	-	372,927	-	319,745	-	319,745	-	241,810	-	241,810
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	1,490	-	1,490	-	1,767	-	1,767	-	508	-	508
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	-	-	277,798	277,798	-	-	283,905	283,905	-	-	229,549	229,549
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	1,005,023	277,798	1,282,821	-	658,001	283,905	941,906	-	429,409	229,549	658,958
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swaps included in other financial liabilities	-	-	-	-	-	267	-	267	-	1,055	-	1,055
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	-	2,085	-	2,085	-	909	-	909	-	320	-	320
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	2,085	-	2,085	-	1,176	-	1,176	-	1,375	-	1,375

42. FAIR VALUE DISCLOSURES CONTINUED

There were no transfers between levels 1 and 2 during the year ended 31 December 2018 (2017: none, 2016: none).

***(a) Recurring fair value measurements** continued*. The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

	Fair value at 31 December				
In thousands of GEL	**2018**	2017	2016	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	**1,003,533**	656,234	428,901	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	**1,490**	1,767	508	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**1,005,023**	658,001	429,409		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps included in other financial liabilities	**-**	267	1,055	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	**2,085**	909	320	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**2,085**	1,176	1,375		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2018 (2017: none; 2016: none).

Fair value measurement analysis by level in the fair value hierarchy is disclosed in Note 2.

For details the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 15. 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.

42. FAIR VALUE DISCLOSURES CONTINUED

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2018				31 December 2017				31 December 2016			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS												
Cash and cash equivalents	**1,166,911**	**-**	**-**	**1,166,911**	1,431,477	-	-	1,431,477	945,180	-	-	945,180
Due from other banks	**-**	**47,316**	**-**	**47,316**	-	39,643	-	39,643	-	24,725	-	24,725
Mandatory cash balances with the NBG	**-**	**1,422,809**	**-**	**1,422,809**	-	1,033,818	-	1,033,818	-	990,642	-	990,642
Loans and advances to customers:												
- Corporate loans	**-**	**-**	**3,212,490**	**3,095,784**	-	-	3,292,352	2,425,766	-	-	2,085,249	1,972,129
- Consumer loans	**-**	**-**	**1,970,006**	**1,832,793**	-	-	2,125,733	2,041,887	-	-	1,877,490	1,798,412
- Mortgage loans	**-**	**-**	**2,702,768**	**2,684,295**	-	-	2,058,468	2,052,151	-	-	1,840,981	1,784,832
- Loans to micro, small and medium enterprises	**-**	**-**	**2,440,078**	**2,425,580**	-	-	1,891,528	1,805,549	-	-	1,606,448	1,578,329
Bonds carried at amortised cost	**-**	**660,916**	**-**	**654,203**	-	458,950	-	449,538	-	377,749	-	372,956
Investments in leases	**-**	**-**	**207,579**	**203,802**	-	-	145,877	143,836	-	-	95,907	95,031
Other financial assets	**-**	**-**	**166,028**	**166,028**	-	-	144,377	144,377	-	-	94,119	94,119
NON-FINANCIAL ASSETS												
Investment properties, at cost	**-**	**-**	**97,425**	**84,296**	-	-	85,012	79,232	-	-	123,852	95,615
TOTAL ASSETS	**1,166,911**	**2,131,041**	**10,796,374**	**13,783,817**	1,431,477	1,532,411	9,743,347	11,647,274	945,180	1,393,116	7,724,046	9,751,970
FINANCIAL LIABILITIES												
Due to credit institutions	**-**	**3,028,180**	**-**	**3,031,503**	-	2,626,155	-	2,620,714	-	2,197,016	-	2,197,577
Customer accounts	**-**	**5,885,242**	**3,482,741**	**9,352,142**	-	4,992,099	2,937,349	7,816,817	-	4,002,659	2,463,392	6,454,949
Debt securities in issue	**-**	**13,343**	**-**	**13,343**	-	20,695	-	20,695	-	23,508	-	23,508
Other financial liabilities	**-**	**96,629**	**-**	**96,629**	-	90,577	-	90,577	-	49,623	-	49,623
Subordinated debt	**-**	**648,802**	**-**	**650,919**	-	425,809	-	426,788	-	369,320	-	368,381
TOTAL LIABILITIES	**-**	**9,672,196**	**3,482,741**	**13,144,536**	-	8,155,335	2,937,349	10,975,591	-	6,642,126	2,463,392	9,094,038

The fair values in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 3).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount. There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2018 (2017: none; 2016: none).

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 4. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In thousands of GEL	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	**1,166,911**	**-**	**-**	**1,166,911**
Due from other banks	**47,316**	**-**	**-**	**47,316**
Mandatory cash balances with the National Bank of Georgia	**1,422,809**	**-**	**-**	**1,422,809**
Loans and advances to customers	**10,038,452**	**-**	**-**	**10,038,452**
Investment securities measured at fair value through other comprehensive income	**-**	**1,005,239**	**-**	**1,005,239**
Bonds carried at amortised cost	**654,203**	**-**	**-**	**654,203**
Other financial assets	**167,518**	**-**	**-**	**167,518**
TOTAL FINANCIAL ASSETS SUBJECT TO IFRS 9 MEASUREMENT CATEGORIES	**13,497,209**	**1,005,239**	**-**	**14,502,448**
INVESTMENTS IN LEASES	**-**	**-**	**-**	**203,802**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**791,743**
TOTAL ASSETS	**-**	**-**	**-**	**15,497,993**

For the periods before 1 January 2018: for the measurement purposes, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	1,431,477	-	-	-	1,431,477
Due from other banks	39,643	-	-	-	39,643
Mandatory cash balances with the National Bank of Georgia	1,033,818	-	-	-	1,033,818
Loans and advances to customers	8,325,353	-	-	-	8,325,353
Investment securities available for sale	-	657,938	-	-	657,938
Bonds carried at amortised cost	449,538	-	-	-	449,538
Investments in leases	-	-	143,836	-	143,836
Other financial assets:					
- Other financial receivables	144,377	-	-	1,767	146,144
TOTAL FINANCIAL ASSETS	11,424,206	657,938	143,836	1,767	12,227,747
NON-FINANCIAL ASSETS	-	-	-	-	738,163
TOTAL ASSETS	-	-	-	-	12,965,910

43. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY CONTINUED

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	945,180	-	-	-	945,180
Due from other banks	24,725	-	-	-	24,725
Mandatory cash balances with the National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	7,133,702	-	-	-	7,133,702
Investment securities available for sale	-	430,703	-	-	430,703
Bonds carried at amortised cost	372,956	-	-	-	372,956
Investments in leases	-	-	95,031	-	95,031
Other financial assets:					
- Other financial receivables	94,119	-	-	508	94,627
TOTAL FINANCIAL ASSETS	9,561,324	430,703	95,031	508	10,087,566
NON-FINANCIAL ASSETS	-	-	-	-	681,466
TOTAL ASSETS	-	-	-	-	10,769,032

As of 31 December 2018 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets fair value through profit or loss measurement category under IFRS 9.

As of 31 December 2017 and 2016, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets held for trading measurement category under IAS 39.

44. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form:

- Parties with more than 10% of ownership stake in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders;
- The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

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 [7])

As of 31 December 2018, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% – 48.0%)	**1,614**	**11,407**
Impairment provisions for loans and advances to customers	**-**	**9**
Customer accounts (contractual interest rate: 0.0% – 10.2 %)	**27,095**	**21,328**
Guarantees	**10,216**	**-**
Provision on guarantees	**36**	**-**

The Group's income and expense items with related parties except from key management compensation for the year 2018 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income - loans and advances to customers	**22**	**591**
Interest expense	**411**	**301**
Gains less losses from trading in foreign currencies	**479**	**65**
Foreign exchange translation gains less losses	**28**	**352**
Fee and commission income	**87**	**50**
Administrative and other operating expenses (excluding staff costs)	**89**	**297**

The aggregate loan amounts advanced to, and repaid, by related parties during 2018 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	**2,465**	**13,547**
Amounts repaid by related parties during the year	**(1,055)**	**(10,195)**

7 https://www.nbg.gov.ge/uploads/legalacts/fts/eng/regulation_on_the_management_of_the_conflict_of_interests.pdf

44. RELATED PARTY TRANSACTIONS CONTINUED

During the year 2018, 7 related parties were removed from the insider list. If they had remained in the list, customer accounts with related parties as of 31 December 2018 would have been GEL 227 thousand higher.

As of 31 December 2018, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	**Balance as of 31 December 2018**
Due from other banks (contractual interest rate: 8.05%-9.03%)	**79,135**
Cash and cash equivalents	**2,176**
Investment in subsidiary	**1,465,345**

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,823 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2018 were as follows:

In thousands of GEL	**2018**
Interest income	**5,879**
Fee and commission expense	**3**
Dividend income	**124,561**

As of 31 December 2017, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% - 36.0%)	154	7,112
Impairment provisions for loans and advances to customers	-	11
Customer accounts (contractual interest rate: 0.0% – 11.8 %)	40,100	11,190
Guarantees	9,901	512
Provision on guarantees	30	2

The Group's income and expense items with related parties except from key management compensation for the year 2017 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income - loans and advances to customers	20	444
Interest income - available securities for sale	747	-
Interest expense	928	449
Gains less losses from trading in foreign currencies	108	56
Foreign exchange translation gains less losses	(46)	(36)
Fee and commission income	122	94
Fee and commission expense	104	-
Administrative and other operating expenses (excluding staff costs)	58	239
Net loss on derivative financial instruments	46	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2017 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	573	3,012
Amounts repaid by related parties during the year	(1,293)	(3,920)

44. RELATED PARTY TRANSACTIONS CONTINUED

During the year 2017, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2017 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2017 would have been GEL 214,767 thousand lower.

As of 31 December 2017, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	**Balance as of 31 December 2017**
Loans and advances to customers	24,000
Due from other banks	11,564
Cash and cash equivalents	57
Investment in subsidiary	1,422,462

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,023 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2017 were as follows:

In thousands of GEL	2017
Interest income	1,807
Interest expense	9
Fee and commission expense	90,552

As of 31 December 2016, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Gross amount of loans and advances to customers (contractual interest rate: 6.3% - 20.0%)		900	7,612
Impairment provisions for loans and advances to customers		2	26
Derivative financial liability	41	1,055	-
Due to credit institutions (contractual interest rate: 5.7% – 9.7 %)		257,403	-
Customer accounts (contractual interest rate: 0.0% – 13.5 %)		38,982	14,548
Guarantees		28,509	-
Provision on guarantees		192	-

The Group's income and expense items with related parties except from key management compensation for the year 2016 were as follows:

In thousands of GEL	**Note**	**Significant shareholders**	**Key management personnel**
Interest income		161	399
Interest expense		17,435	503
Gains less losses from trading in foreign currencies		115	18
Foreign exchange translation gains less losses		170	465
Fee and commission income		69	13
Fee and commission expense		580	-
Administrative and other operating expenses (excluding staff costs)		1	155
Net loss on derivative financial instruments	41	206	-

44. RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2016, other rights and obligations with related parties were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Amounts advanced to related parties during the year	3,713	10,568
Amounts repaid by related parties during the year	(5,994)	(5,722)

As of 31 December 2016, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	**Balance as of 31 December 2016**
Gross amount of loans and advances granted to subsidiary	2,000
Customer accounts placed in subsidiary	2,320
Placement of cash in subsidiary	399
Investment in subsidiary	1,417,043

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,023 thousands relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2016 were as follows:

In thousands of GEL	2016
Interest income	1,149
Interest expense	32
Fee and commission expense	1

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

		2018		2017		2016
In thousands of GEL	**Expense**	**Accrued liability**	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	**12,481**	**270**	13,339	-	12,323	-
Cash settled bonuses related to share-based compensation	**6,424**	**8,395**	3,905	9,772	7,336	10,715
Equity-settled share-based compensation	**9,369**	**-**	8,469	-	9,923	-
Total	**28,274**	**8,665**	25,713	9,772	29,582	10,715

Included in salaries and bonuses for 2018, GEL 2,347 thousand (2017: GEL 2,326 thousand; 2016: GEL 619 thousand) relates to compensation for directors (2018: 8 person, 2017: 8 person, 2016: 8 person) of TBCG paid by TBC Bank Group PLC.

45 BUSINESS COMBINATION

Acquisition of Bonaco. On 31 October 2018, the Bank won the auction held by National Bank of Georgia for the acquisition of Bonaco LLC, microfinance organization. The business process of merger has been finalized in December 2018. The transaction is in line with Bank's strategy to enhance its product offering to its customers. Bonaco LLC was offering gold pawn and mortgage products to its customers and was added to the respective portfolio for products and services offered to TBC Bank customers.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL	
Cash consideration paid	**10**
Non-cash consideration	**14,582**
Total purchase consideration	**14,592**

45 BUSINESS COMBINATION CONTINUED

Acquisition of Bonaco (continued). Non-cash consideration includes the fair value as at acquisition date of the loan issued from the Bank to the Bonaco.

In thousands of GEL	Note	Provisional Fair Values
Cash and cash equivalents		**819**
Placements with banks		**1,581**
Loans to customers*		**20,212**
Property and equipment		**6,922**
Repossessed assets		**55**
Other assets		**156**
Amounts due to customers		**(17,691)**
Other Liabilities		**(29)**
Fair value of acquired interest in net assets of subsidiary		**12,025**
Goodwill arising from the acquisition	17	**2,567**
Total purchase consideration		**14,592**
Less: Non-cash consideration		**(14,582)**
Less: cash and cash equivalents of subsidiary acquired		**(819)**
Inflow of cash and cash equivalents on acquisition		**(809)**

*The carrying amount of Loans to customers before fair value adjustments amounted to GEL 19,339 thousand.

Details of the assets and liabilities acquired and goodwill arising is as follows:

The goodwill is primarily attributable to the profitability of the acquired business and the significant synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 212 thousand and to Group's net profit in the amount of GEL 15 thousand from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1st of January 2018, the contribution to the Group's net revenues for the year ended 31 December 2018 would have been of GEL 1,489 thousand and to net profit would have been negative of GEL 11 thousand.

46 EVENTS AFTER REPORTING PERIOD

In February 2019 the Bank completed negotiations with National Bank of Georgia regarding their focused inspection carried out in second half of 2018. The Bank agreed to pay GEL 1,105 thousand and work on restructuring its supervisory board (whereby chairman and deputy chairman will need to step down from JSC TBC Bank but will continue to serve as Chairman and Deputy Chairman of TBC Bank Group PLC). NBG confirmed the joint public statement that the matter has been resolved.

i A full list of related undertakings and the country of incorporation is set out below.

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Real Estate Management Fund JSC	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
GE Commerce LTD	3 Chavchavadze Avenue, 0128, Tbilisi, Georgia
Swoop JSC	74 Chavchavadze Avenue, 0162, Tbilisi, Georgia

REPORTS AND COMMUNICATIONS

We issue regulatory announcements through the Regulatory News Service ("RNS"). Our regulatory announcements are also available at our website www.tbcbankgroup.com in the "regulatory news" section.

DIVIDENDS

The Board intends to recommend 25% of the Company's profit for the financial year to be distributed to the Company's shareholders as a dividend, (which represents GEL 1.98 per share), payable in British Pounds Sterling at an official exchange rate of the National Bank of Georgia for 13 June 2019. If approved, the final dividend will be paid on 12 July 2019 to shareholders on the Register of Members at the close of business in the UK (ie 6pm London time) on 7 June 2019.

Ex-dividend date: 6 June 2019
Record date: 7 June 2019
Currency conversion date: 13 June 2019
Payment date: 12 July 2019

SHARE PRICE INFORMATION

Our latest and historical share prices are available through our website www.tbcbankgroup.com.

SHAREHOLDER INQUIRES

TBC Bank Group's share register is maintained by Equiniti.
If you have any questions about your TBC Bank Group's shares, please contact Equiniti.

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WEBSITE

Our annual report, financial results and investor presentations, as well as other significant information are available through our website: www.tbcbankgroup.com.

GLOSSARY

Bank	Joint Stock Company TBC Bank
Bankassurance	An arrangement in which a bank and an insurance company form a partnership, so that the insurance company can sell its products to the bank's client base
Bank Republic	Joint Stock Company Bank Republic
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of the Company
Chief Executive Officer (or CEO)	Chief Executive Officer of TBC Bank Group PLC
Chief Financial Officer (or CFO)	Chief Financial Officer of TBC Bank Group PLC
Code	The UK Corporate Governance Code
Company	TBC Bank Group PLC
Corporate segment	A legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million, or which have been granted facilities of more than GEL 5 million. Some other business customers may also be assigned to the corporate segment or transferred to MSME on a discretionary basis
Corporate Centre	Comprises the Treasury, other support and back office functions, and the non-banking subsidiaries of the Group
Deputy Chairman	Deputy chairman of Board of Directors of the Company
Director(s)	Members of the Board of TBC Bank Group PLC
Engagement index	Employees feel involved and committed to TBC Bank
Fully digital on-boarding	Share of legal entities registered online out of total number of newly-registered legal entities
Group	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
High-net-worth individuals	To qualify for high-net-worth individuals sub-segment, one needs to have a deposit equal to US$ 100,000 or more
Management Board	Management Board of Joint Stock Company TBC Bank
Mobile banking penetration ratio	Number of active mobile banking users divided by total number of active retail clients
Mobile and Internet banking penetration ratio	Number of active mobile and Internet banking users divided by total number of active retail clients
MSME (Micro, Small and Medium) segment	Business customers who are not included in either the corporate or the retail segments; or legal entities who have been granted a pawn shop loan; or individual customers of the newly launched, fully digital bank - Space
Nikoil Bank	Nikoil Open Joint-Stock Company Investment Commercial Bank
Offloading ratio	Number of transactions conducted in remote channels divided by total number of transactions, based on JSC TBC Bank standalone data
Retail segment	Non-business individual customers or individual business customers who have been granted mortgage loans; all individual customers are included in retail deposits;
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
TBC Status clients	Clients with minimum monthly income of GEL 3,000 or a loan of GEL 30,000 or more, or deposit of GEL 30,000 or more
TBC Bank Group PLC	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank)
TBCG	TBC Bank Group PLC (except for Remuneration Report, where it means TBC Bank Group PLC and JSC TBC Bank together)
TBC Insurance	Joint Stock Company TBC Insurance, formerly Joint Stock Company Insurance Company Kopenbur
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC

ABBREVIATIONS

ACCA	Asociation of Chartered Certified Accountants
AFS	Available for sale
ALCO	Asset-liability management committee
APM	Alternative performance measure
ATM	Automated teller machine
BNY	Bank of New York
CAGR	Compounded annual growth rate
CAR	Capital adequacy ratio
CEE	Central and Eastern Europe
CEO	Chief executive officer
CFA	Chartered Financial Analyst
CFO	Chief financial officer
CGU	Cash generating unit
CIB	Corporate investment banking
CIS	The Commonwealth of Independent States
COR	Cost of risk
CRM	Customer relationship management
CRO	Chief risk officer
CSAT	Customer satisfaction
CSR	Corporate social responsibility
CVP	Cost volume profit
DCF	Discounted cash flows
EBRD	European Bank for Reconstruction and Development
ECL	Expected credit losses
EECG	Energy Efficiency Centre Georgia
EFSEDF	The Development Facility of the European Funds for Southeast Europe
EMEA	Europe, Middle East and Africa
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GBP	Great British pound, national currency of the UK
GDP	Gross domestic product
GDR	Global depositary receipt
GEL	Georgian lari, national currency of Georgia
GHG	Greenhouse gas
GWP	Gross written premium
HNWI	High-net-worth individuals
HR	Human resources
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer default rating
IFC	International Finance Corporation
IFI	International financial institution
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial public offering
IT	Information technology
JSC	Joint stock company
KPI	Key performance indicators
LED	Light-emitting diode
LSE	London Stock Exchange
MBA	Master of Business Administration
MBO	Management-by-objectives
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
NPL	Non-performing loans
NPS	Net promoter score
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
PLC	Public limited company
POS	Point of sale
PPP	Purchasing power parity
PWC	PricewaterhouseCoopers
ROA	Return on average assets
ROE	Return on average equity
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
STEM	Science, technology, engineering and mathematics
UK	United Kingdom of Great Britain and Northern Ireland
US$	The US dollar, national currency of the United States
VAR	Value-at-risk
VIP	Very important person
WB	World Bank
WRI	World Resources Institute

NOTES

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