IMPORTANT NOTICE

THE PROSPECTUS FOLLOWING THIS PAGE (THE "**PROSPECTUS**") MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") WITHIN THE MEANING OF RULE 144A ("**RULE 144A**") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR (2) OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S ("**REGULATION S**") UNDER THE SECURITIES ACT.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus, and you are therefore advised to read this carefully before reading, accessing or making any other use of this document. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer or any of the Joint Lead Managers (each, as defined therein) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE NOTES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY NOTE TO BE ISSUED HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

WITHIN THE UNITED KINGDOM, THE PROSPECTUS IS DIRECTED ONLY AT (A) PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "**ORDER**") OR (B) WHO ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE ORDER OR (C) TO WHOM IT MAY OTHERWISE LAWFULLY BE DISTRIBUTED IN ACCORDANCE WITH THE ORDER ("**RELEVANT PERSONS**"). THE PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS IN THE UNITED KINGDOM WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY IN THE UNITED KINGDOM TO WHICH THE PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "*SUBSCRIPTION AND SALE*" IN THE PROSPECTUS.

IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes described therein, (1) each prospective investor in respect of the Notes being offered within the United States must be a QIB and (2) each prospective investor in respect of the Notes being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of the attached document, you shall be deemed to have represented to the Joint Lead Managers (as defined therein), and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**") that (1) you have understood and agree to the terms set out herein, (2) (i) you are (or the person you represent is) a QIB or (ii) the electronic mail (or e-mail) address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of the Notes being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (4) you consent to delivery by electronic transmission, (5) you will not transmit the Prospectus (or any copy or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and the Issuer, and

(6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any jurisdiction or place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, any offering of Notes shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

MiFID II product governance / Professional investors and ECPs only target market—Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU, as amended ("**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prospectus Directive / Prohibition of sales to EEA retail investors—The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and, therefore, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Prospectus has not been approved by the National Bank of Georgia (the "**NBG**"). The Notes are not intended to be advertised, marketed, offered, sold or otherwise made available in a public offering in Georgia to or for the benefit of any Georgian person or entity, unless and to the extent otherwise permitted under Georgian law. After the admission of the Notes to the official list of the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"), and trading on the regulated market of Euronext Dublin, the Notes may be offered in Georgia in a public offering and an application may be made to list the Notes on JSC Georgian Stock Exchange (the "**GSE**"). If the Notes are placed/listed on Euronext Dublin, which is a "recognised stock exchange of the foreign country", the Notes may be offered in Georgia in a public offering without approval of the Prospectus by the NBG, provided that the NBG is notified about the public offering of the Notes in accordance with Georgian law and the International Securities Identification Number (ISIN) of the Notes, as well as evidence of listing of the Notes on Euronext Dublin, is provided to the satisfaction of the NBG in advance of the offering in Georgia. The GSE needs an approval of the NBG to list the Notes. The Notes are not intended for "placement", "public circulation", "offering" or "advertising" (each, as defined in Georgian law) in Georgia except as permitted by Georgian law.

The Notes are not intended to be offered or sold and should not be offered or sold to any natural person for the purpose of Applicable Banking Regulations (as defined in the Prospectus).

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Joint Lead Managers nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

JSC TBC Bank

(incorporated in Georgia with limited liability)

Perpetual Subordinated Callable Additional Tier 1 Capital Notes

Issue Price: 100%

The US$125,000,000 10.775% Perpetual Subordinated Callable Additional Tier 1 Capital Notes (the "**Notes**") will be issued by JSC TBC Bank (the "**TBC Bank**" or the "**Issuer**") on 3 July 2019 (the "**Closing Date**") (the "**Offering**"). TBC Bank and its consolidated subsidiaries are referred to herein as "**TBC**" or the "**Group**".

Interest will accrue on the outstanding principal amount of the Notes ("**Outstanding Principal Amount**") from time to time ("**Interest**") as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) 3 October 2024 (the "**First Reset Date**"), at the rate of 10.775% per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a "**Reset Date**") to (but excluding) the next succeeding Reset Date (each such period, a "**Reset Period**"), at the rate equal to the aggregate of 8.995% per annum (the "**Margin**") and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Notes (the "**Conditions**")) for the relevant Reset Period (rounded to four decimal places, with 0.00005 rounded down), *provided that*, upon the occurrence of a Benchmark Event (as defined in the Conditions) in respect of the 5-year Mid-Swap Rate, Interest shall accrue for such Relevant Period (as defined in the Conditions) at the rate calculated in accordance with Condition 5(b). Subject as provided in the Conditions, Interest will be payable semi-annually in arrear on 3 October and 3 April, in each year (each an "**Interest Payment Date**"), with the first Interest Payment Date falling on 3 April 2020 (the "**First Interest Payment Date**").

TBC Bank may elect, at any time, in its sole and absolute discretion, to cancel (in whole or in part) the payment of any Interest otherwise scheduled to be paid on an Interest Payment Date as further provided in Condition 5(c), *provided that* (i) if a Capital Event (as defined in the Conditions) has occurred, TBC Bank will not have the discretion to cancel any payments of Interest due on any outstanding Notes (or any part thereof) that have ceased to be included in, or count towards, TBC Bank's Tier 1 Capital as a result of such Capital Event (the "Affected Notes") on any Interest Payment Date for so long as such Capital Event is continuing; and/or (ii) if an Approval Event (as defined in the Conditions) has occurred, TBC Bank will not have the discretion to cancel the payment of any Interest due on the Notes on any Interest Payment Date. Without prejudice to any right of TBC Bank to cancel the payments of any Interest: (a) TBC Bank will cancel any Interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of Interest, when aggregated together with any other Relevant Distributions (as defined in the Conditions), exceeds the amount of Distributable Items (as defined in the Conditions) of TBC Bank as at such Interest Payment Date; (b) if TBC Bank is required to cancel a relevant payment of Interest in whole or in part in accordance with Applicable Banking Regulations (as defined in the Conditions), TBC Bank will only make partial or, as the case may be, no payment of the relevant Interest on the Notes; (c) if the Competent Authority (as defined in the Conditions) requires TBC Bank to cancel the relevant payments of Interest in whole or in part, TBC Bank will only make partial or, as the case may be, no payment of the relevant Interest on the Notes; (d) no payments of Interest will be made on the Notes if and to the extent that such payments of Interest would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital (as defined in the Conditions) pursuant to Applicable Banking Regulations (as defined in the Conditions); and (e) if a Write Down Event (as defined in the Conditions) occurs at any time on or after the Closing Date, TBC Bank will not make any further payments of Interest on the Notes until the Write Down Measure Effective Date and any accrued and unpaid Interest will be cancelled.

The Notes are perpetual. All, and not some only, of the Notes may be redeemed at the option of TBC Bank on any Interest Payment Date falling on or after the First Reset Date, at, per Note, the Outstanding Principal Amount plus, where not cancelled pursuant to or otherwise subject to limitations on payment set out in Condition 5 (*Interest*), an amount equal to the accrued and unpaid Interest for the then current Interest Period to (but excluding) the date fixed for redemption of the Notes (the "**Redemption Price**"). The Notes are also redeemable at the Redemption Price, on or after the Closing Date, at any time, at the option of TBC Bank (subject to the prior consent of the Competent Authority, if required, and otherwise in accordance with Applicable Banking Regulations then in force), in whole but not in part, if there is a Tax Event (as defined in the Conditions) that is continuing. In addition, following the occurrence of a Capital Event that is continuing, TBC Bank may redeem the Notes (in whole but not in part) in its sole discretion (subject to the prior consent of the Competent Authority, if required, and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price. Further, if there is an Approval Event (as defined in the Conditions) TBC Bank may elect to redeem all, but not some only, of the Notes at the Redemption Price within 30 days of the Approval Date (as defined in the Conditions). Any redemption (other than as a result of an Approval Event) is subject to the prior consent of the Competent Authority and must be made otherwise in accordance with Applicable Banking Regulations then in force.

If, at any time, a Tax Event or a Capital Event occurs and is continuing, TBC Bank may, instead of redeeming the Notes as aforesaid, subject to the approval of the Competent Authority, if applicable, and in accordance with the Conditions and Applicable Banking Regulations then in force, elect in its sole discretion either to substitute all (but not some only) of the Notes for, or to vary the terms of the Notes so that they remain or become, Qualifying Additional Tier 1 Notes (as defined in the Conditions).

In the event a Write Down Event (as defined in the Conditions) has occurred and is continuing on the date on which the Write Down measures become effective (which shall occur on or prior to the date falling 30 Business Days after the occurrence of the Write Down Event) (the "Write Down Measure Effective Date"), on the Write Down Measure Effective Date: (a) any applicable monetary damages for which the Issuer may be liable under the Notes will be cancelled in full; (b) any applicable accrued and unpaid interest will be cancelled in full; and (c) the Outstanding Principal Amount will be written down in full, *provided that*, the Competent Authority, in its sole discretion, and in accordance with Applicable Banking Regulations, may determine that any such monetary damages, accrued and unpaid interest and/or Outstanding Principal Amount need only be cancelled or written down (as the case may be) in part only (and not in full) in order to remedy the relevant Write Down Event, *provided further that*, (i) the Outstanding Principal Amount may only be used to remedy a Write Down Event *pro rata* with the Write Down Instruments (as defined in the Conditions), and (ii) monetary damages and accrued interest may only be cancelled by TBC Bank *pro rata* with monetary damages and accrued interest on the Write Down Instruments, *provided further that*, the effectiveness of a write down or cancellation under a Write Down Instrument shall not prejudice any write down of the Notes or any cancellation of monetary damages or accrued interest under the Notes.

Upon the occurrence of a Write Down Event and on the Write Down Measure Effective Date, Noteholders will not (i) receive any shares or other participation rights in TBC Bank or be entitled to any other participation in any equity or debt securities issued by TBC Bank; or (ii) be entitled to any compensation in the event of any further change in (A) the CET1 ratio (as defined in the Conditions), (B) TBC Bank's solvency, ability to meet its payment obligations as they fall due or to carry on its business, or (C) in the opinion of the Competent Authority and/or in accordance with Applicable Banking Regulations (each, as defined in the Conditions), TBC Bank's viability, and a write down of a principal amount of the Notes may occur even if existing preference shares and ordinary shares of the Issuer remain outstanding.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States in accordance with Regulation S under the U.S. Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Notes are being offered and sold only to (i) qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the U.S. Securities Act ("**Rule 144A**")) in reliance on the exemption from registration under the U.S. Securities Act provided by Rule 144A (the "**Rule 144A Notes**") and (ii) in offshore transactions in reliance on Regulation S (the "**Regulation S Notes**"). Prospective purchasers of the Rule 144A Notes are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Notes or passed upon the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offence. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. For a more complete description of restrictions on offers, sales and transfers, see "*Transfer Restrictions*" and "*Subscription and Sale*".

The denominations of the Notes shall be US$200,000 and integral multiples of US$1,000 in excess thereof. The Regulation S Notes will initially be represented by a Regulation S global certificate (the "**Regulation S Global Certificate**") in registered form, without interest coupons attached, which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") on or about the Closing Date. The Rule 144A Notes will initially be represented by beneficial interests in a restricted global certificate (the "**Rule 144A Global Certificate**" and, together with the Regulation S Global Certificate, the "**Global Certificates**") in registered form, without interest coupons attached, which will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("**DTC**") on the Closing Date. Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their account holders. See "*Overview of Provisions relating to the Notes in Global Form*". Definitive notes in respect of beneficial interests in the Regulation S Global Certificate and the Rule 144A Global Certificate ("**Regulation S Definitive Certificates**" and "**Rule 144A Definitive Certificates**", respectively, and, together, the "**Definitive Certificates**") will not be issued except as described under "*Terms and Conditions of the Notes*". No Definitive Certificate will be available in bearer form.

The Notes are expected to be rated "B-" by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Fitch is a credit rating agency established and operating in the European Community prior to 7 June 2010 and registered under the CRA Regulation.

An investment in the Notes involves certain risks. For a discussion of these risks see "*Risk Factors*" beginning on page 15.

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC as amended (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin (the "**Euronext Dublin**") for the Notes to be admitted to the Official List and trading on its regulated market (the "**Regulated Market**") of Euronext Dublin. The Regulated Market is a regulated market for the purpose of Directive 2014/65/EU. The approval of the Central Bank of Ireland relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Reference in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market of Euronext Dublin. There is no assurance that a trading market in the Notes will develop or be maintained.

The Prospectus has not been approved by the National Bank of Georgia (the "**NBG**") and does not comprise a prospectus for the purposes of Article 4 of the Law of Georgia on Securities Market dated 24 December 1998, as amended (the "**Securities Market Law**"). After the admission of the Notes to the Official List of Euronext Dublin and trading on the Regulated Market, the Notes may be offered in Georgia in a public offering and an application may be made to list the Notes on JSC Georgian Stock Exchange (the "**GSE**") (as described in "*Subscription and Sale*"). However, there is no assurance that such offering will be made and such listing will be procured or that a trading market in the Notes will develop or be maintained in Georgia.

The Notes shall not be advertised, marketed, offered or sold in the territory of Georgia in a public offering other than based on an exception for securities placed/listed on a "recognised stock exchange of the foreign country"(as described in the section headed "*Subscription and Sale*").

The Notes are not intended to be offered or sold and should not be offered or sold to any natural person for the purpose of Applicable Banking Regulations (as defined in this Prospectus).

The Notes are not intended to be sold and should not be sold to retail clients (as defined in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/71/EU ("**MiFID II**"), as amended or replaced from time to time). Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page iii of this Prospectus for further information.

Joint Bookrunners and Joint Lead Managers

J.P. Morgan **Renaissance Capital** **UBS Investment Bank**

Joint Lead Manager

TBC Capital

Prospectus dated 1 July 2019

IMPORTANT INFORMATION

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive, and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole and the Notes. The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having made all reasonable enquiries and having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Issuer confirms that: (i) this Prospectus contains all information with respect to the Issuer and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Issuer are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to the Issuer are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of J.P. Morgan Securities plc, Renaissance Securities (Cyprus) Limited or UBS AG London Branch (each, a "**Joint Bookrunner**" and, together, the "**Joint Bookrunners**"), or TBC Capital LLC (together with the Joint Bookrunners, the "**Joint Lead Managers**"), or the Issuer, to subscribe or purchase, any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Notes and distribution of this Prospectus, see "*Transfer Restrictions*" and "*Subscription and Sale*".

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

None of the Joint Lead Managers, BNY Mellon Corporate Trustee Services Limited (the "**Trustee**"), the Agents (as defined below, see "*Terms and Conditions of the Notes*"), TBC's auditors or any of their respective directors, affiliates, advisers or agents, has made an independent verification of the information contained in this Prospectus in connection with the issue and offering of the Notes and no representation or warranty, expressed or implied, is made by the Joint Lead Managers, the Trustee or any of their directors, affiliates, advisers or agents, with respect to the accuracy or completeness of such information.

Nothing contained in this Prospectus is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether relating to the past or the future, by the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, affiliates, advisers or agents, in any respect. Furthermore, none of the Joint Lead Managers nor the Trustee makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes, the performance and observance by the Issuer of its obligations in respect of the Notes or the recoverability of any sums due or to become due from the Issuer under the Notes or the accuracy or completeness of the information contained in this Prospectus.

The Joint Lead Managers are acting exclusively for the Issuer and no one else in connection with any offering of the Notes. None of the Joint Lead Managers will regard any other person (whether a recipient of this Prospectus or otherwise) as its client in relation to any such offering or will be responsible to anyone other than the Issuer for providing the protections afforded to its clients or for giving advice in relation to such offering or any transaction or arrangement referred to herein.

None of the Joint Lead Managers, the Trustee or any Agent shall be responsible for any loss or liability suffered by any investor or potential investor in the Notes to the extent that interest on the Notes is cancelled pursuant to the Conditions or any amounts are written-down pursuant to the Conditions and any investor or potential investor should be aware of the specific circumstances that may result in such cancellation of interest or write-down of other amounts.

In making any investment decision, investors must rely on their own examination of the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole, Georgia, the Notes and the terms of this offering, including the merits and risks involved. See "*Risk Factors*". Each potential investor must determine the suitability of an investment in the Notes in light of such investor's own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal and interest payments (the U.S. dollar) is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of the financial markets in which they participate; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors should not construe anything in this Prospectus as legal, business or tax advice. Each investor should consult its own advisers as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations. The Notes have not been approved or disapproved by any U.S. federal or state securities commission or regulatory authority. In addition, no U.S. federal or state securities commission or regulatory authority has confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

This Prospectus does not, and is not intended to, constitute or contain an offer to sell or solicitation of an offer to purchase the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe such restrictions. This Prospectus may only be used for the purpose for which it is published. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*" and "*Transfer Restrictions*".

The Trust Deed (as defined below) provides that the Trustee will be required to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or pre-funded and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions and accordingly in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity and/or prefunding and/or security to it, and it will be for Noteholders to take such actions directly.

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes

and 60 days after the date of the initial allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Words and expressions defined in the Conditions shall have the same meanings when used elsewhere in this Prospectus unless otherwise specified. See "*Terms and Conditions of the Notes*".

Restrictions on marketing and sales to retail investors

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the UK Financial Conduct Authority ("**FCA**") published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015, which took effect from 1 October 2015 (the "**PI Rules**"). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail insurance-based investment products (as amended, the "**PRIIPs Regulation**") became directly applicable in all EEA member states; and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together, the PI Rules, the PRIIPs Regulation and MiFID II are referred to as the "**Regulations**".

The Regulations set out various obligations in relation to (i) the manufacturing and distribution of financial instruments; and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain write-down securities, such as the Notes.

Potential investors should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interest therein) including the Regulations.

The Joint Lead Managers are required to comply with the Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Issuer and/or any of the Joint Lead Managers, each prospective investor will be deemed to represent, warrant, agree with, and undertake to the Issuer and each of the Joint Lead Managers that:

(a) it is not a retail client (as defined in MiFID II);

(b) whether or not it is subject to the Regulations, it will not:

    (i) sell or offer the Notes (or the beneficial interest in such Notes) to retail clients (as defined in MiFID II); or

    (ii) communicate (including the distribution of this Prospectus) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client (as defined in MiFID II). In selling or offering Notes or making or approving communications relating to the Notes, it may not rely on the limited exemptions set out in the PI Rules; and

(c) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

PRIIPs Regulation/Prospectus Directive/Prohibition of sales to EEA retail investors—The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling

the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance/Professional investors and eligible counterparties only target market— Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Notification under Section 309B(1)(c) of the Securities and Futures Act—In connection with Section 309B of the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A)(1) of the Securities and Futures Act), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

NOTICE TO U.S. INVESTORS

This offering of the Notes is being made in the United States in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgements, representations, warranties and agreements that are described in this Prospectus.

This Prospectus is being provided (1) to a limited number of U.S. investors that the Issuer reasonably believes to be "qualified institutional buyers" ("**QIBs**") under Rule 144A for informational use solely in connection with their consideration of the purchase of the Notes and (2) to investors outside the United States in reliance on Regulation S. Prospective investors are hereby notified that the sellers may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A.

The Notes described in this Prospectus have not been registered with, recommended by or approved by, the United States Securities and Exchange Commission (the "**SEC**"), any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC, any state securities commission in the United States or any such securities commission or authority passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence.

NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at: (i) persons who are outside the United Kingdom; (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order; and (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) in connection with the issue or sale of any securities of the Issuer may otherwise lawfully be communicated or be caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). Any investment or investment activity to which this Prospectus relates is only available to, and the Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents, and should return this Prospectus as soon as possible and take no other action. By accepting receipt of this Prospectus, each recipient is deemed to confirm, represent and warrant to the Issuer, each Joint Lead Manager that it is a person to whom this Prospectus can be lawfully distributed.

NOTICE TO INVESTORS IN GEORGIA

This Prospectus has not been approved by the NBG. The Notes are not intended to be advertised, marketed, offered, sold or otherwise made available in a public offering in Georgia to or for the benefit of any Georgian person or entity, unless and to the extent otherwise permitted under Georgian law. After the admission of the Notes to the Official List and trading on the Regulated Market, the Notes may be offered in Georgia in a public offering and an application may be made to list the Notes on the GSE. If the Notes are placed/listed on Euronext Dublin, which is a "recognised stock exchange of the foreign country", the Notes may be offered in Georgia in a public offering without approval of the Prospectus by the NBG, provided that the NBG is notified about the public offering of the Notes in accordance with Georgian law and the International Securities Identification Number (ISIN) of the Notes, as well as evidence of listing of the Notes on Euronext Dublin, is provided to the satisfaction of the NBG in advance of the offering in Georgia. The GSE needs an approval of the NBG to list the Notes. The Notes are not intended for "placement", "public circulation", "offering" or "advertising" (each as defined in Georgian law) in Georgia except as permitted by Georgian law.

The Notes are not intended to be offered or sold and should not be offered to any natural person for the purpose of Applicable Banking Regulations (as defined in this Prospectus).

ADDITIONAL INFORMATION

The Issuer has agreed that, so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) of the U.S. Securities Act, the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"), nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owner of any such "restricted security", or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) of the U.S. Securities Act upon the request of such holder or beneficial owner.

FORWARD LOOKING STATEMENTS

Certain statements in this Prospectus may be deemed to be "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act and Section 21E of the U.S. Exchange Act. Forward-looking statements include statements concerning TBC's plans, expectations, projections, objectives, targets, goals, strategies, future events, future revenues, capital expenditures, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, plans or goals relating to TBC's financial position, future operations, development, and business strategy, the performance or growth of TBC's loan portfolio and the trends TBC anticipates in the Georgian economy and in the industries and the political and legal environment in which TBC operates and other information that is not historical information. Forward-looking statements appear in various sections of this Prospectus, including, without limitation, under the headings "*Overview of the Issuer*", "*Risk Factors*", "*Description of Business*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Risk Management*".

Words such as "believe", "anticipate", "estimate", "target", "potential", "expect", "intend", "predict", "project", "could", "should", "may", "will", "plan", "aim", "seek" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "*Risk Factors*", as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

Accordingly, investors should not place undue reliance on forward-looking statements and, when looking at forward-looking statements, should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which TBC operates. The forward-looking statements in this Prospectus speak only as of the date of this Prospectus. TBC does not undertake any obligation to update or revise any of them (whether as a result of new information, future events or otherwise), other than as required by applicable law and/or regulation. TBC does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to TBC or persons acting on its behalf and any projections made by third parties included in this Prospectus.

ENFORCEABILITY OF FOREIGN JUDGMENTS AND ARBITRAL AWARDS

The Issuer is a joint stock company incorporated under the laws of Georgia. A substantial portion of the assets of the Issuer and most of the members of the supervisory board (the "**Supervisory Board**") and of the management board (the "**Management Board**") of the Issuer and the Issuer's executive officers reside outside of the United Kingdom and the United States and most of the assets of the Issuer and of such persons are located outside of the United Kingdom and the United States. The Issuer has not submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of the London Court of International Arbitration (the "**LCIA**"). Georgia is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law.

Pursuant to Article 45.1 of the Law of Georgia on Arbitration (the "**Arbitration Law**"), arbitral awards against the Issuer, irrespective of the country in which they are rendered, may not be recognised and enforceable in Georgia if:

- the party against whom the award is made proves before Georgian courts that:
    - a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had an appointed supporter in relation to issues under the arbitration agreement but did not receive relevant support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made;
    - a party was not duly informed about the appointment of the arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests;
    - the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim of the parties in the arbitration. Provided that the decisions on matters submitted to arbitration can be separated from those not so submitted, only that part of the award which contains decisions on matters submitted to arbitration may be recognised and enforced;
    - the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or
    - the arbitral award has not yet become binding and/or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or
- the court establishes that:
    - the subject matter of the dispute is not subject to arbitration under Georgian law; or
    - the recognition and enforcement of the award is contrary to public order.

It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

The Issuer has appointed an agent for service of process in England; however, it may not be possible for investors to effect service of process within the United States or the United Kingdom on directors and executive officers of the Issuer or enforce judgments against such persons or the Issuer. In addition, on the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Issuer in courts outside Georgia or in a jurisdiction to which the Issuer has not explicitly submitted. See "*Risk Factors—Noteholders may face difficulties enforcing judgments, including foreign arbitral awards, in respect of the Notes and against the Issuer*".

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The consolidated financial information of TBC set forth herein has, unless otherwise indicated, been derived from the audited consolidated financial statements of TBC as of and for the years ended 31 December 2018, 2017 and 2016 (the "**Audited Consolidated Financial Statements**") and the unaudited condensed consolidated interim financial statements of TBC as of and for the three months ended 31 March 2019 (the "**Unaudited Consolidated Interim Financial Statements**"). The Audited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board (the "**IASB**"), and the Unaudited Consolidated Interim Financial Statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Certain amounts that appear in this Prospectus have been subject to rounding adjustments.

Key Factors Affecting Comparability

IFRS 9 implementation

TBC has adopted IFRS 9 "Financial instruments" from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. IFRS 9 introduces a new impairment model based on the concept of "expected credit losses", changes to the rules of classification and measurement of financial instruments (particularly of financial assets) and a new approach towards hedge accounting. TBC did not early-adopt IFRS 9 in the periods prior to financial year 2018. As permitted by the transitional provisions of IFRS, the Group elected not to restate the comparative figures. Any adjustments to the carrying amounts of the financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

As a result, comparability of consolidated financial information of TBC for the first quarter of 2019 and for the years ended 31 December 2018 to financial information for the years ended 31 December 2017 and 2016, is limited.

IFRS 16 implementation

IFRS 16 replaces IAS 17 Leases for annual periods beginning on or after 1 January 2019. The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The comparative information for 2018, 2017 and 2016 is reported under IAS 17 and is not comparable to the information for the first quarter of 2019, presented in the Prospectus.

Non-IFRS Measures

General

The non-IFRS measures described below are alternative performance measures ("**APMs**") as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method.

This Prospectus includes certain APMs that are not measures of performance specifically defined by IFRS. These include return on average assets ("**ROAA**"), underlying ROAA, return on average equity ("**ROAE**"), underlying ROAE, yields on interest earning assets, cost of funds, cost to income ratio, underlying cost to income ratio, cost of risk, FX-adjusted cost of risk, cost per assets ratio, net interest margin ("**NIM**"), underlying NIM, risk-adjusted NIM, net interest spread, loan yield, risk-adjusted loan yield, loan-to-value ratio, customer deposit yield, operating income, liquidity coverage ratio ("**LCR**"), Non-performing Loans ("**Non-performing Loans**"), net loans to deposits and international financial institutions ("**IFIs**") ratio, Non-performing Loan ratio, PAR 30 to gross loans ratio, Non-performing Loan coverage ratio, Non-performing Loan coverage ratio with collateral, credit loss allowance level to gross loans ratio, average total assets, average total equity, leverage, average interest-earning assets, average interest-bearing liabilities, average spread, annual return on assets, annual return on equity, dividend payout ratio, NBG liquidity, NBG (Basel III) Tier 1 Capital Adequacy Ratio, NBG (Basel III) Total

Regulatory Capital Adequacy Ratio, CET1 Capital, Tier 1 Capital and Total Regulatory Capital. The APMs disclosed in this Prospectus are unaudited supplementary measures of TBC's performance and liquidity that are not required by, or presented in accordance with, IFRS. Although the APMs disclosed in this Prospectus are not measures of financial or operating performance derived in accordance with IFRS, TBC has presented these measures in this Prospectus because it understands that similarly titled measures may be used by some investors and analysts. The APMs disclosed in this Prospectus should not, however, be considered as an alternative to, in isolation from or as substitutes for financial information reported under IFRS. The APMs disclosed in this Prospectus are not measures specifically defined by IFRS and TBC's use of these measures may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology of similar measures by other companies in its industry.

Supplemental Data

TBC defines:

- ROAA as profit for the period divided by monthly average totals assets of the period, annualised where applicable;
- underlying ROAA as underlying profit for the period divided by monthly average total assets for the same period, annualised where applicable;
- ROAE as profit for the period attributable to shareholders divided by monthly average total equity of the period attributable to shareholders, annualised where applicable;
- underlying ROAE as underlying profit for the period attributable to shareholders divided by the monthly average of total shareholders' equity attributable to the Parent Company's equity holders for the same period;
- yields on interest earning assets equals total interest income divided by the monthly average interest earning assets, annualised where applicable;
- cost of funds as interest expense for the period divided by total average interest-bearing liabilities of the period, annualised where applicable;
- cost to income ratio as 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);
- underlying cost to income ratio equals underlying total operating expenses for the period divided by the underlying total revenue for the same period (underlying total revenue represents the sum of net interest income, net fee and commission income and other non-interest income adjusted for respective one-time items);
- cost of risk equals credit loss allowance divided by the monthly average gross loans and advances to customers, annualised where applicable;
- FX-adjusted cost of risk is calculated based on currency rates of the respective prior periods;
- cost per assets ratio equals total operating expenses for the period divided by the monthly average total assets;
- NIM as net interest income for the period divided by 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, and EUR mandatory reserves with the NBG (which currently has negative interest), and includes other earning items from due from banks;
- underlying NIM as underlying net interest income for the period divided by average-interest-earning assets of the period. 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, and EUR mandatory reserves with the NBG (which currently has negative interest), and includes other earning items from due from banks;
- risk-adjusted NIM as NIM minus cost of risk without one-time items and currency effect;

- net interest spread as the difference between interest income to average interest-earning assets and cost of funds;
- loan yield as total interest income from loans for the period divided by the average total gross loans for the same period;
- risk-adjusted loan yield as loan yield minus cost of risk without one-time and currency affect;
- loan-to-value ratio as the total loans divided by the value of collateral;
- customer deposit yield as total interest expense from amounts due to customers for the period divided by the average total amounts due to customers for the same period;
- liquidity coverage ratio as high quality liquid assets (as defined by the NBG) divided by net cash outflows over the next 30 days (as defined by the NBG);
- Non-performing Loans as loans to customers with overdue payments of principal loan amount and/or interest by more than 90 days, plus loans with well-defined weaknesses, regardless of the existence of any past due amount or the number of days past due;
- net loans to deposit and IFIs ratio as net loans divided by total deposits plus borrowings received from IFIs;
- Non-performing Loan ratio as Non-performing Loans divided by the gross loan portfolio for the same period;
- PAR 30 to gross loans ratio as loans for which principal or interest repayment is overdue for more than 30 days divided by the gross loan portfolio for the same period;
- Non-performing Loan coverage ratio as credit loss allowance (calculated in accordance with IAS 39 as at 31 December 2016 and 2017, and in accordance with IFRS 9 as at 31 December 2018 and 31 March 2019) divided by total Non-performing Loans;
- Non-performing Loan coverage ratio with collateral as credit loss allowance (calculated in accordance with IAS 39 as at 31 December 2016 and 2017, and in accordance with IFRS 9 as at 31 December 2018 and 31 March 2019) plus total collateral amount (excluding third party guarantees) discounted at 30-50% depending on segment type, divided by total Non-performing Loans;
- credit loss allowance level to gross loans ratio as credit loss allowance divided by the gross loan portfolio for the same period;
- average total assets as monthly averages for the period of the total assets of TBC;
- average total equity as monthly averages for the period of the total equity of TBC;
- leverage as total assets divided by total equity;
- average interest-earning assets as the sum of investment securities excluding corporate shares, net investment in finance lease, net loans, amount due from credit institutions, excluding all items from cash and cash equivalents, EUR mandatory reserves with the NBG (which currently has negative interest) and including other interest-earning items due from banks (calculated as described under "*—Average Balance Sheet and Interest Rate Data*" below);
- average interest-bearing liabilities as the sum of amounts due to credit institutions, amounts of customer accounts, amounts of subordinated debt, amounts of debt securities in issue (calculated as described under "*—Average Balance Sheet and Interest Rate Data*" below);
- average spread as the difference between the average rate of interest income on interest-earning assets and the average rate of interest expense on interest-bearing liabilities and annualised;
- dividend payout ratio as dividends declared divided by consolidated profit for the previous year;
- NBG liquidity as average liquid assets (as defined by the NBG) during the month divided by average liabilities (as defined by the NBG) during the same month. Liquid assets (as defined by the NBG) include cash and cash equivalents, amounts due from credit institutions and investment securities;
- NBG (Basel III) Tier 1 Capital Adequacy Ratio as Tier 1 Capital divided by Risk-Weighted Assets under Basel II/III as adopted by the NBG;

- NBG (Basel III) Total Regulatory Capital Adequacy Ratio as Total Regulatory Capital divided by Risk-Weighted Assets under Basel II/III as adopted by the NBG;
- CET1 Capital as the common equity tier 1 capital in accordance with Applicable Banking Regulations at any time, including any applicable transitional, phasing-in or similar provisions;
- Tier 1 Capital as the tier 1 capital in accordance with Applicable Banking Regulations at any time, including any applicable transitional, phasing-in or similar provisions; and
- Total Regulatory Capital as the total regulatory capital in accordance with Applicable Banking Regulations at any time, including any applicable transitional, phasing-in or similar provisions.

Average Balance Sheet and Interest Rate Data

This Prospectus includes information on the average balances of interest-earning assets and interest-bearing liabilities of TBC, as well as the weighted average effective interest rates and average balance sheet and yield rates. Unless otherwise expressly stated, average balances are based on TBC's consolidated monthly balances (as of the end of each month) during the period, from the beginning of the period to its end. Balances as at the remaining month ends, in each case, have been derived from TBC's unaudited consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes.

Calculation of these average balances on a weekly or daily basis could result in materially different average results. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average interest rates are distinct from the effective interest rates used in preparation of the consolidated financial statements of TBC. 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 discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing 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 entire expected life of the instrument. The present value calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 16 to the Unaudited Consolidated Interim Financial Statements.

TBC presents information on effective interest rates because IFRS requires this rate be used in the preparation of its consolidated financial statements. Operationally, TBC uses this information, as well as average interest rates, as both are considered useful business tools.

Market, Industry and Economic Information

The Issuer obtained the market data used in this Prospectus from internal surveys, industry sources and public information currently available. The main source for market information and foreign exchange data used in this Prospectus is the NBG. The Issuer obtained Georgian macroeconomic data principally from the Legal Entity of Public Law National Statistics Office of Georgia ("**Geostat**"), the Government of Georgia (the "**Government**"), the International Monetary Fund (the "**IMF**"), Business Monitor International and the Georgian National Tourism Agency.

The Issuer accepts responsibility for having correctly reproduced information obtained from third parties, and, so far as the Issuer is aware and has been able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

General Information

Unless otherwise stated, all information contained in this Prospectus, including all historical financial information, is information of the Group.

Except to the extent expressly set out in this Prospectus, neither the contents of the Issuer's website or the website of any other member of the Group (or any other website) nor the contents of any website accessible from hyperlinks on any such website is incorporated into, or forms any part of, this Prospectus.

Unless otherwise stated, the term "average", as used in reference to financial information included in this Prospectus, means the sum of such financial information at the start and at the end of the relevant year, divided by two.

Currency and Exchange Rates

In this Prospectus, all references to **Lari** and **GEL** are to the lawful currency of Georgia; all references to **U.S. dollar**, **U.S.$, US$** and **USD** are to the lawful currency of the United States of America; all references to **EUR** and **€** are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; and references to **Manat**, **Azeri Manat** or **AZN** are to the lawful currency of Azerbaijan. References to **billions** are to thousands of millions.

Solely for the convenience of the reader, this Prospectus contains translations of certain Lari amounts into U.S. dollars at exchange rates established by the NBG and effective as of the dates, or for the years, specified herein. These exchange rates may differ from the actual rates used in the preparation of the Audited Consolidated Financial Statements, Unaudited Consolidated Interim Financial Statements and other financial information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that the GEL amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at any particular rate, or at all.

The following table sets out, for the years indicated, the high, low, average and year-end official exchange rates as reported by the NBG, in each case, for the purchase of GEL, all expressed in Lari per U.S. dollar.

	High	**Low**	**Average**	**Year End**
	(Lari per U.S. dollar)			
2018	2.7656	2.3912	2.5345	2.6766
2017	2.7674	2.3824	2.5086	2.5922
2016	2.7846	2.1272	2.3667	2.6468

Source: NBG.

The following table sets out, for the months indicated, the high, low, average and period-end official exchange rates as reported by the NBG, in each case for the purchase of Lari, all expressed in Lari per U.S. dollar.

	High	**Low**	**Average**	**Period End**
	(Lari per U.S. dollar)			
June (up and including 21 June 2019)	2.7871	2.7342	2.7588	2.7798
May 2019	2.8023	2.7029	2.7465	2.8023
April 2019	2.7007	2.6893	2.6943	2.7007
March 2019	2.6969	2.6706	2.6840	2.6914
February 2019	2.6940	2.6404	2.6531	2.6940
January 2019	2.6752	2.6550	2.6654	2.6550

Source: NBG.

The Lari per U.S. dollar exchange rate reported by the NBG on 21 June 2019 was GEL 2.7798.

TABLE OF CONTENTS

OVERVIEW	1
RISK FACTORS	15
USE OF PROCEEDS	51
CAPITALISATION AND INDEBTEDNESS	52
SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION	53
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	60
SELECTED STATISTICAL AND OTHER INFORMATION	101
DESCRIPTION OF BUSINESS	134
BANKING SECTOR AND BANKING REGULATION IN GEORGIA	159
LENDING POLICIES AND PROCEDURES	174
RISK MANAGEMENT	183
PRINCIPAL SUBSIDIARIES	199
MANAGEMENT	200
SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	207
TERMS AND CONDITIONS OF THE NOTES	211
OVERVIEW OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	233
CLEARING AND SETTLEMENT	235
TAXATION	239
TRANSFER RESTRICTIONS	243
ERISA AND CERTAIN OTHER UNITED STATES CONSIDERATIONS	245
SUBSCRIPTION AND SALE	246
LEGAL MATTERS	251
INDEPENDENT AUDITORS	252
GENERAL INFORMATION	253
INDEX TO FINANCIAL STATEMENTS	F-1

OVERVIEW

Overview of the Issuer

TBC Bank is the established leader in the Georgian banking sector, with a total market share of 38.4% of loans and 40.4% of customer deposits in Georgia as at 31 March 2019, according to NBG data. It held the number one position in total assets, total loans (to both individuals and legal entities) and total deposits (to both individuals and legal entities), according to NBG data as at 31 March 2019.

TBC offers a wide range of banking products and services to its retail, corporate and micro, small and medium enterprise ("**MSME**") clients. TBC's lending activities include providing business, mortgage, consumer and micro loans, as well as guarantees, letters of credit and overdrafts. TBC also offers current and savings accounts and term deposits, credit and debit cards, currency exchange facilities and other products. Apart from its core activities, TBC Bank offers leasing, investment banking and brokerage services through its subsidiaries. In addition, TBC has credit operations in Azerbaijan (TBC Kredit) and operations in Israel focused on deposit collection (TBC Invest).

TBC has an award-winning omni-channel distribution platform, with particular expertise in digital channels. TBC's distribution platform at 31 March 2019 comprised 148 branches, advanced internet and mobile banking applications and Georgia's first fully-digital bank, Space, launched in May 2018, as well as a call centre with the first voice biometric recognition system in Georgia and wide network of self-service terminals (3,320). See "*—Distribution Network*". In addition, TBC has one of the largest networks of automated teller machines ("**ATMs**") and points of sale ("**POS**") terminals in Georgia, consisting of 510 ATMs and 17,857 POS terminals.

TBC's operations are predominantly focused on the Georgian banking market, which operations accounted for 97.6% of TBC's total assets and 98.5% of its profit as at and for the three months ended 31 March 2019. TBC's retail, corporate and MSME segments are its key business areas, accounting for 44.2%, 32.5% and 23.4% of its total gross loans as at 31 March 2019, respectively.

As at 31 March 2019, TBC Bank had total assets of GEL 15.1 billion, total gross loans and total deposits of GEL 10.4 billion and GEL 9.3 billion, respectively, and total equity of GEL 2.2 billion. TBC's profit was GEL 132.2 million for the three months ended 31 March 2019 and GEL 433.3 million for the year ended 31 December 2018. TBC's cost to income and annualised ROAE ratios were 36.7% and 24.7%, respectively, for the three months ended 31 March 2019 and 37.1% and 22.7% (or underlying ROAE of 23.5%), respectively, for the year ended 31 December 2018. As at 31 March 2019, TBC Bank had 6,851 employees.

TBC Bank is financially robust and has a high quality balance sheet, with a net loan to deposit plus IFI funding ratio of 89.5%, a Non-performing Loan to gross loan portfolio ratio of 3.3%, a Non-performing Loan coverage ratio of 100.1% and a net stable funding ratio of 123.8% as at 31 March 2019. TBC's Tier 1 and Total Regulatory Capital ratios per Basel III guidelines stood at 13.8% and 19.1%, respectively, well above the corresponding minimum requirements of 11.9% and 16.9% set by the NBG. TBC's management ("**Management**") believes that these capital levels provide a strong capital base to support TBC. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

On 16 April 2019, Fitch affirmed TBC Bank's Long-term Issuer Default Rating at "BB−" and revised its outlook to stable from positive. Moody's upgraded TBC Bank's local currency deposit rating and foreign currency deposit rating to "Ba2" and "Ba3", respectively, on 13 September 2017.

TBC Bank has won numerous local and international awards for its business, customer service and innovative technology applications, which include 34 awards for "Best Bank in Georgia" since 2002 from *The Banker*, *EMEA Finance*, *Euromoney* and *Global Finance*. Furthermore, TBC Bank has won multiple digital awards in different categories from *Global Finance*, including five global and 25 countrywide and regional (CEE) awards since 2012. In addition, in 2018, TBC's Ti-transfer, an innovative and safe money transfer system via chat extension, was named "Best Alternative Payments Project" at the Payments Awards ceremony organised by FStech and Retail Systems.

TBC Bank Group PLC is the UK-incorporated parent company of TBC Bank (the "**Parent Company**"). The Parent Company is listed on the premium listing segment of the London Stock Exchange. The Parent Company is also the parent company of JSC TBC Insurance, TBC International LLC and Inspired LLC, which are sister companies of TBC Bank. TBC Insurance, a wholly owned subsidiary of TBC Bank Group PLC, was acquired in October 2016 and is TBC's main bancassurance partner. TBC International was established in 2019 with a purpose to unite all newly established ecosystems under one umbrella.

Inspired LLC is a leading payment platform in Uzbekistan trading under the Payme brand. The Parent Company acquired a 51% stake in the company in April 2019 in line with its strategy to expand its operations in Uzbekistan.

Key Strengths

Management believes that TBC has the following key strengths that will enable it to maintain and strengthen its position as the leading Georgian banking group:

Leading positions in an attractive market

TBC Bank is the largest bank in the Georgian banking market by all key metrics according to NBG data. As at 31 March 2019, TBC Bank was the largest retail bank in Georgia by value of deposits of individuals (with a 39.5% market share) and loans to individuals (with a 39.3% market share). At the same time, TBC Bank was the largest bank for businesses, with loans to, and deposits of, legal entities (37.4% and 41.4% market share, respectively). As of 31 March 2018, TBC Bank, together with the second largest Georgian bank, held more than 72.2% and 75.0% of all loans and deposits in Georgia, respectively, with a substantial gap between them and all other banks in Georgia. At the same date, TBC's total assets amounted to GEL 14.7 billion, which translated into a 37.4% market share.

Georgia benefits from strong growth potential, and its economy has demonstrated high resilience in recent years. According to Geostat, the compound annual growth rate (the "**CAGR**") of Georgia's real gross domestic product ("**GDP**") for the five year period ended 31 December 2018 was 4.0%, with preliminary GDP growth in the first quarter of 2019 estimated at 4.7%. According to the IMF, in 2019-2020 the economy is expected to expand at 4.6% and 5.0%, respectively, while in 2021-2024 the projection further increases to an average of 5.2%. Georgia has an international reputation as a country with a favourable investment environment, being ranked in the World Bank & International Financial Corporation (the "**IFC**") Doing Business Reports 2019 as the sixth easiest country in the world in which to start a business. TBC has benefited from Georgia's recent strong macroeconomic performance and Management believes that TBC is well placed to continue to benefit from projected growth in Georgia as a consequence of TBC's strong market share across its business segments, its focus on continued product development, and its award-winning omni-channel platform and innovative digital solutions, among other factors.

Consistent track record of growth and profitability

TBC's successful execution on its strategy of focusing on certain key products and services has driven strong growth and profitability, allowing TBC to maintain robust margins despite increasing margin pressure in the market generally. In the two-year period 2017-2018, TBC achieved a CAGR of the aggregate value of total loans to customers of 18.7%. In the same period, TBC achieved a profit CAGR of 20.2% whilst maintaining a high ROAE of above 21.0% during that same period (in an environment of increasing capital requirements, which typically increase the cost of lending). TBC also maintained solid margins while achieving this growth, recording NIMs of 6.8%, 6.5% and 7.8% in the years ended 31 December 2018, 2017 and 2016, respectively. TBC's strong performance was further reinforced by continuous improvement in cost efficiency, which was reflected in the declining cost to income ratio of 37.1% in 2018 compared to 45.5% in 2016 (or underlying cost to income ratio of 42.6%).

Integrated business model focused on every segment of the financial services market

TBC has a streamlined business with a clear strategic focus on its core activities in the financial services market, primarily engaging in banking and related activities, as well as other services that enhance, support and generate synergies with, its core business. As of 31 March 2019, approximately 99.6% of TBC's assets were related to banking, leasing, investment banking and brokerage activities. This dedicated approach enables TBC to focus on its areas of expertise and seek for new ways to fine-tune its value proposition.

Strong brand, superior customer experience and an award-winning franchise

TBC is one of the most well-known and trusted brands in Georgia driven by, amongst other factors, its high level of customer service, strong reputation, longstanding relationships with customers, focus on social responsibility and pursuit of innovation. TBC Bank has won numerous local and international awards for its business, customer service and innovative technology applications, which include 34 awards for "Best Bank in Georgia" since 2002 from *The Banker*, *EMEA Finance*, *Euromoney* and *Global Finance*.

Furthermore, TBC Bank has won multiple digital awards in different categories from *Global Finance*, including five global and 25 countrywide and regional (CEE) awards since 2012.

Management believes that superior customer experience is one of the differentiators of TBC. According to surveys conducted by the independent research companies ACT and IPM, TBC Bank has had the highest customer satisfaction score in the Georgian banking sector each year between 2015 and 2018 and has maintained a leading position among other service providers in Georgia. According to a survey conducted by independent research company IPM in December 2018, TBC Bank was named the "Best Service Company in Georgia" with an overall score of 50%, compared to the 47% score for a leading competitor bank, a 12% score for each of a leading telecom company and a leading pharmaceutical company, and an 11% score for a leading insurance company.

In order for TBC to continue to develop this advantage, Management plans continuous improvements, including the design of branches and remote access channels, personnel professionalism, wide product range and supplementary services and fine-tuning in its digital capabilities.

A leading innovative omni-channel distribution platform, with best-in-class digital channels

TBC services its clients through a diversified omni-channel system comprising one of the largest networks of ATMs, POS terminals and self-service terminals in Georgia, customer centric branches, award-winning internet and mobile banking and best-in-class call centre. TBC's percentage distribution of transactions by channel for the three months ended 31 March 2019 is set out for each channel in the table below:

	For the three months ended 31 March 2019
ATMs	30%
Mobile Banking	29%
POS terminals	21%
Internet banking	11%
Branches	8%
Other	1%
Total	**100%**

Management believes that TBC's omni-channel platform drives higher sales of TBC's financial products and greater operational and transactional volumes. By 31 March 2019, 91.9% of retail customer transactions were conducted remotely outside TBC's branches. As at 31 March 2019, TBC's penetration ratio (calculated as the number of "active users" who have opened the application at least once during the preceding three months divided by the total number of active retail clients) was 41.9% for internet or mobile banking users and 36.7% for mobile banking users. Furthermore, in 2018, TBC's internet bank was named the world's "Best Integrated Consumer Banking Site" by *Global Finance* in addition to winning multiple digital country and regional (CEE) awards. TBC's growth in digital channels is set out in the tables below:

	For the three months ended 31 March			
	2019	**2018**	**2017**	**2016**
Number of transactions in digital channels (in thousands)				
Internet banking transactions	2,499	2,449	2,098	1,669
Mobile banking transactions	9,194	5,315	2,622	1,150
Distribution of sales in channels[(1)]				
Digital channels (internet and mobile banking)	45%	30%	24%	27%
Branches and call centre	55%	70%	76%	73%
Percentage of selected product sales in digital channels				
Deposits	72%	59%	50%	—
Pre-approved loans	23%[(2)]	35%	14%	—
Debit cards	26%	14%	—	—

Notes:

(1) Products being offered through remote channel include pre-approved loans, credit cards, limit increases and opening of accounts.

(2) The decrease is due to new, more conservative lending criteria introduced by the NBG in January 2019, which resulted in a slowdown in consumer lending.

	As at 31 March			
	2019	**2018**	**2017**	**2016**
Number of active users (in thousands)				
Internet or mobile banking	511	447	298	220
Mobile banking	447	365	219	121
Penetration ratios of digital channels				
Internet or Mobile Banking Penetration Ratio	42%	38%	34%	32%
Mobile Banking Penetration Ratio	37%	31%	25%	17%

TBC has continuously invested in developing innovative products and efficient new client servicing capabilities and continues to implement new ways of delivering its products and services without unnecessary expense or branch network expansion. In March 2017, TBC introduced Ti-bot, the first Georgian-speaking chatbot, which allows customers to perform simple banking transactions and provides information about TBC products, entertainment events and the weather forecast. As of 31 March 2019, Ti-bot had attracted around 250,000 customers. Ti-bot's transfer system, Ti-Transfer, was developed in partnership with industry leader Pulsar AI and named "Best Alternative Payments Project" at the 2018 Payment Awards ceremony organised by FStech and Retail Systems. In May 2018, TBC launched Georgia's first fully-digital bank, Space. Space harnesses an intuitive mobile application to provide digitally-savvy customers with a full suite of daily products without the need to visit a branch. Between its launch in May 2018 and 31 March 2019, Space attracted approximately 115,000 clients and 292,400 downloads, and has an outstanding loan portfolio of approximately GEL 16.8 million as of 31 March 2019.

TBC applies an innovative approach to its physical locations and believes it has one of the most productive, modern and visually appealing branch networks in Georgia. TBC invests significant care in the appearance of its branches, with lighting, colour and layout specifically designed to increase customer satisfaction.

Resilient and high quality balance sheet

TBC's primary source of funding is deposits (which accounted for 72.0% of total liabilities as at 31 March 2019), of which retail deposits accounted for 52.9% of total deposits. As at 31 March 2019, TBC's gross loan to deposit ratio was 111.5%, and its ratio of net loans to the sum of customer deposits and IFI loans was 89.5%. Other sources of funding are amounts due to credit institutions (including a range of wholesale funding from various credit institutions and IFIs and amounts due to other banks), which accounted for 20.9% of total liabilities as at 31 March 2019, and subordinated debt from IFIs (including shareholders of the Parent Company), which accounted for 5.1% of total liabilities as at 31 March 2019. TBC has historically experienced low customer withdrawals, even during the conflict with Russia in 2008 and the global financial crisis.

TBC has a well-diversified loan portfolio split across its segments, with retail, corporate and MSME loans accounting for 44.2%, 32.5% and 23.4%, respectively, of TBC's total gross loans as at 31 March 2019, and across all regions and major economic and industry sectors in Georgia. As at 31 March 2019, TBC Bank's loans to customers within its corporate segment were spread across major industries, with 24.3% of loans to the energy and utilities sector, 13.6% to the hospitality and leisure sector, 13.6% to the real estate sector, 12.3% to the food industry, 6.5% to communication and the remaining 29.7% to the other sectors. Gross loans to related party customers accounted for only 0.1% of total capital calculated in accordance with IFRS as at 31 March 2019.

As a result of its prudent risk management policies and proactive approach towards potential client payment vulnerabilities, TBC maintains a high quality loan portfolio. As at 31 March 2019, TBC's ratio of Non-performing Loans to total gross loans was 3.3%. Moreover, Management believes that TBC's Non-performing Loan coverage ratio (defined as loan loss provisions divided by Non-performing Loans), which was 100.1% as at 31 March 2019, provides substantial protection against potential future loan losses. See "*Lending Policies and Procedures—Non-performing and Restructured Loans and overdue finance leases*". In addition, TBC's loan portfolio is well secured, with 89% of the gross loan portfolio secured by collateral as at 31 March 2019.

As at 31 March 2019, TBC Bank had a Tier 1 capital adequacy ratio of 13.8% and a Total Regulatory Capital adequacy ratio of 19.1% in accordance with the NBG Basel III-based methodology, well above the

minimum regulatory levels (including Pillar 1 and Pillar 2 buffer requirements) of 11.9% and 16.9%, respectively. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

Experienced management team and strong corporate governance standards and corporate culture

TBC has an experienced management team with a proven track record in leading TBC's operations. The Chief Executive Officer (the "**CEO**") joined TBC in 1993 and has served as CEO since 1998. All members of the Management Board have significant experience in the banking and finance industry, with most having at least 10 (and some more than 20) years of banking experience. In addition, five members of the Management Board have degrees from universities in Western Europe or the United States as well as experience working in global banks or IFIs. Mr. Butskhrikidze, the CEO, has also won the "Special Award for Responsible Capitalism in Adversity" from the FIRST organisation, been named "Best Businessman of the Year" by *Georgian Times,* and "CEO of the Year 2014" by *EMEA Finance.*

TBC is subject to the robust corporate governance standards for a premium listed company since 2016, when the shares of its UK incorporated holding company, TBC Bank Group PLC, were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. TBC supplements compliance with these requirements with a robust internal corporate governance policy and compliance with the Corporate Governance Code for Commercial Banks, adopted by the NBG on 26 September 2018 (the "**Corporate Governance Code**").

TBC has a strong customer-centric and customer-oriented corporate culture, which Management believes translates into customer loyalty, profitability and sustainable growth. TBC's strong client-oriented culture is further solidified by strong staff loyalty, which is primarily driven by the professional development and career growth opportunities that TBC provides to its employees. Management considers staff loyalty and engagement to be TBC's core values, which TBC measures through regular surveys. The latest survey conducted in December 2018 demonstrated that TBC's engagement index and net promoter score were 87% and 66% respectively, outperforming their benchmarks.

Strategy

TBC's overall strategy is to deliver strong, sustainable growth and profitability without compromising asset quality, robust levels of capitalization or TBC's risk management processes. This strategy is focused on the following areas:

Maintain TBC's leadership position and continue sustainable growth in each market segment

Management intends to grow together with the market and maintain its leadership position in all key segments, which are comprised of retail, corporate and MSME.

Retail banking

TBC Bank is the leader in Georgia's retail banking segment, ranking first in terms of both deposits and loans as of 31 March 2019. TBC operates a customer-centric service model and offers its clients a full range of banking products through its advanced omni-channel distribution platform with strong focus on digital channels. TBC leverages on its exceptional customer experience, world-class digital channels, most trusted brand and advanced analytical capabilities to maintain its leadership position. Management intends to continue to innovate and offer the most up-to-date digital solutions and is aiming to increase the number of customers and assets under management in the "affluent" and "high-net-worth" sub-segments respectively. TBC also plans to transform into a data-driven company and further develop its advanced data analytical capabilities in order to increase its profitability and efficiency levels, as well as increase customer experience and engagement.

Corporate and investment banking

TBC holds a leadership position in the market in terms of core corporate banking products including, loans, deposits and guarantee portfolios. TBC's corporate objective is to be the "trusted partner corporate bank" for its clients and build long-term relationships. Management believes that TBC's differentiating factors are an advisory-focused business model, exceptional customer experience, advanced trade finance and strong project finance/syndication capabilities, as well as a highly experienced and professional team. TBC currently offers its corporate clients diverse credit, trade finance and project finance products, as well as foreign currency forwards and swaps, hedging, insurance packages and escrow and other custodian

services. To respond to the more sophisticated product requirements of its clients, TBC is also actively developing investment banking services through its wholly owned subsidiary TBC Capital. TBC plans to improve its business engine through implementing strategic initiatives in the following areas: further accelerating the development of capital markets and investment banking businesses in Georgia and the wider region, enhancing TBC's coverage in Georgia's regions and the mid-corporate segment and increasing penetration of corporate clients by providing them with tailor-made solutions.

MSME banking

TBC's strategy is also to maintain its strong leadership position in the MSME segment in Georgia, which Management believes has significant growth potential. TBC's ability to further improve its share of this market will be driven by its strong and proven MSME capabilities, such as its exceptional customer experience, best-in-class financial products and services, an extensive business support programme, as well as innovative solutions. TBC Bank is the only bank in the region offering fully digital on-boarding, which enables legal entities to become customers by registering online. In addition, TBC's strong digital channels enabled MSME customers to conduct most of their transactions online and as a result, the offloading ratio (calculated as number of transactions conducted in digital channels divided by total number of transactions, excluding cash transactions) stood at 92.3% as of 31 March 2019. TBC plans to continue focusing on its innovative and digital offerings to create maximum comfort to its clients.

Further leverage TBC's award-winning omni-channel platform and increase digitalisation

TBC intends to further develop its omni-channel capabilities by continuously fine-tuning its digital offerings, building customer-focused ecosystems through the Parent Company group, introducing new products, adding various functionalities (including online sales) and enhancing customer experience through simplified processes such as registration, payments, and transfers. This ongoing omni-channel development project facilitates TBC's ability to serve more customers without the need to significantly increase the number of TBC branches, allowing staff more time to focus on sales and advisory services and enhancing the customer experience, whilst reducing overall transactional costs.

In May 2018, TBC also launched Georgia's first fully-digital bank, Space, which is a cutting edge mobile application for managing daily finances. Space has no branches and offers all its products through the mobile application. Space currently offers remote account opening, consumer loans, money transfers, bill payments, debit cards and online instalments for e-commerce. TBC plans to continue to enhance Space with new products and features and actively involving customers in the development process in order to get instant feedback. TBC also intends to deploy Space in the Azeri market.

Enhance TBC's value proposition by building customer-focused digital ecosystems

TBC aims to further deepen its relationship with its customers and expand its value proposition by providing customers with a full range of financial products and services in a convenient manner, as well as creating additional services that customers need on a daily basis that are linked to TBC's core activities. TBC and the Parent Company began the development of an e-commerce ecosystem and creation of an innovative digital trading platform, Vendoo, through the acquisition by the Parent Company of Swoop, a well-known online discount and sales company in Georgia in August 2018. The acquisition by the Parent Company of a 90% stake in the Georgian online real estate platform, Allproperty.ge (subsequently rebranded under the brand name Livo and the new platform www.livo.ge), in January 2019 is also expected to provide TBC's customers with a digital platform to access a wide range of products and services that are typically required when purchasing and moving into a new home. The Parent Company group plans to develop these digital ecosystems and establish additional ecosystems during 2019.

Maintain robust profitability and margins

Management is focused on maintaining solid NIMs. For this purpose, it has launched an advanced analytics program across TBC to sustain margins by conducting proper customer segmentation and pricing, as well as targeting the right product mix.

Invest in TBC's human capital and promote agile transformation

Management believes that a professional and high-quality staff is one of TBC's differentiating strengths. Management believes that TBC has attracted the best employees and aims to maintain high levels of staff motivation in order to support further business growth and development. The latest survey of staff loyalty and engagement conducted in December 2018 demonstrated that TBC's engagement index and net promoter score were 87% and 66% respectively, outperforming their benchmarks. Management recognises the importance of a flexible organisational structure in fast-changing market environments and launched a company-wide agile transformation project, which aims to create a more flexible and effective organisational structure. Management intends to oversee the implementation of this project across the Group during 2019.

Focus on continuous operational efficiency and cost management

TBC aspires to achieve the best-in-class operational cost levels in a sustainable way by leveraging on its strong digital capabilities and customer centric approach. During 2018, Management launched several initiatives in this respect, including a branch optimisation project which envisages moving from a product-centric service model to a client-centric service one. The plan is to replace existing branch positions with universal sales staff—financial advisors and service managers—for a more integrated customer relations system. TBC has also developed a plan for back office processes optimisation.

Management believes that IT capabilities represent one of the core competencies necessary for leading banks to maintain and further strengthen their positions in the market. TBC's IT strategy is to develop IT capabilities and cutting edge technologies that support TBC's robust, long-term development, including by developing automated services and operations to standardise TBC's customer services and back office processes, which is intended to increase operational efficiency and the level of straight-through processing.

Further increase leading position in customer experience

Management believes that customer experience is key to TBC's competitiveness in the market and its long-term profitability. Customer experience is considered a strength of TBC, supported by a number of internal and external market research reports that show TBC's outstanding performance not only in the Georgian banking sector but among the leading service providers in the country generally. TBC's ability to generate loyalty amongst its clients is critical to its strategy to maintain and grow its share of the Georgian banking market, and is a significant factor in TBC's ability to improve profitability. Customer loyalty generates repeat business and cross-selling opportunities for TBC's other products and services; provides TBC with a cheaper, more stable source of funding from long-term customer deposits; and reduces pressure on TBC's margins by lessening the need for TBC to lower its loan interest rates or raise deposit interest rates in order to attract or retain customers.

As a result, to further increase TBC's leading position among Georgian service providers in customer experience (see "*—Key strengths—Strong brand, superior customer experience and an award-winning franchise*"), Management plans to intensify its effort to further strengthen this advantage and increase the gap between TBC and its competitors. In doing so, Management plans to reinforce the value of customer centricity in corporate culture, continue investing in staff competencies, further refine user experience in digital channels and introduce simpler, uniform designs and navigation and new and improved processes for managing customer experience across every channel and segment.

OVERVIEW OF THE OFFERING

This overview describes the principal terms of the Notes. This overview does not purport to be complete and is qualified in its entirety by the remainder of this Prospectus. See "Terms and Conditions of the Notes" for a more detailed description of the Notes. Words and expressions defined in the Conditions shall have the same meanings in this overview.

Issuer:	JSC TBC Bank
Risk Factors:	There are certain factors that may affect TBC Bank's ability to fulfil its obligations under the Notes. These are set out under "*Risk Factors*" in this Prospectus and include the Georgian economy and the global macroeconomic environment, risks relating to TBC Bank and the Group and risks relating to the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes which are described in detail under "*Risk Factors*".
Issue size:	US$125,000,000
Issue date:	3 July 2019
Issue details:	US$125,000,000 Perpetual Subordinated Callable Additional Tier 1 Capital Notes. TBC Bank has requested that the Notes qualify as Additional Tier 1 Capital of the Issuer pursuant to Applicable Banking Regulations.
Use of Proceeds:	TBC Bank intends to use the net proceeds from the issue of the Notes for general corporate purposes.
Interest:	Interest will accrue on the outstanding principal amount (the "**Outstanding Principal Amount**") of the Notes from time to time as follows: (i) in respect of the period from (and including) the Closing Date to (but excluding) 3 October 2024 (the "**First Reset Date**"), at the rate of 10.775% per annum, and (ii) in respect of each period from (and including) the First Reset Date and every fifth anniversary thereof (each a "**Reset Date**") to (but excluding) the next succeeding Reset Date (each such period, a "**Reset Period**"), at the rate equal to the aggregate of 8.995% per annum (the "**Margin**") and the 5-year Mid-Swap Rate (as defined in the terms and conditions of the Notes (the "**Conditions**")) for the relevant Reset Period (rounded to four decimal places, with 0.00005 rounded down), provided that, upon the occurrence of a Benchmark Event (as defined in the Conditions) in respect of the 5-year Mid-Swap Rate, Interest shall accrue for such Relevant Period (as defined in the Conditions) at the rate calculated in accordance with Condition 5(b). Subject as provided in Condition 5 (*Interest*) (see "*Limitations on Interest*" below), Interest shall be payable semi-annually in arrear on 3 October and 3 April, in each year (each, an "**Interest Payment Date**"), with the first Interest Payment Date falling on 3 April 2020 (the "**First Interest Payment Date**"). For further information, see Condition 5 (*Interest*).

Limitations on Interest: . . . .

TBC Bank may elect, at any time, in its sole and absolute discretion, to cancel (in whole or in part) the payment of any Interest otherwise scheduled to be paid on an Interest Payment Date, *provided that*:

(a) if a Capital Event (as defined in the Conditions) has occurred, the Issuer will not have the discretion to cancel any payments of Interest due on any outstanding Notes (or any part thereof) that have ceased to be included in, or count towards, TBC Bank's Tier 1 Capital as a result of such Capital Event (the "**Affected Notes**") on any Interest Payment Date for so long as such Capital Event is continuing; and/or

(b) if an Approval Event (as defined in the Conditions) has occurred, TBC Bank will not have the discretion to cancel the payment of any Interest due on the Notes on any Interest Payment Date.

Without prejudice to any right of TBC Bank to cancel the payments of any Interest:

(1) TBC Bank will cancel any Interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of Interest, when aggregated together with any other Relevant Distributions (as defined in the Conditions), exceeds the amount of Distributable Items (as defined in the Conditions) of TBC Bank as at such Interest Payment Date.

(2) If TBC Bank is required to cancel a relevant payment of Interest in whole or in part in accordance with Applicable Banking Regulations, TBC Bank will only make partial or, as the case may be, no payment of the relevant Interest on the Notes.

(3) If the Competent Authority (as defined in the Conditions), in accordance with Applicable Banking Regulations (as defined in the Conditions), requires TBC Bank to cancel a relevant payment of Interest in whole or in part, TBC Bank will only make partial or, as the case may be, no payment of the relevant Interest on the Notes.

(4) No payments of Interest will be made on the Notes if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital (as defined in the Conditions) pursuant to Applicable Banking Regulations.

(5) If a Write Down Event (as defined below) occurs at any time on or after the Closing Date, TBC Bank will not pay any further Interest on the Notes until the Write Down Measure Effective Date and any accrued and unpaid Interest will be cancelled.

If any scheduled payment of Interest is not made in full because of the cancellation of Interest, TBC Bank shall ensure that no distribution or dividend in cash or in kind shall be paid or made on any Ordinary Shares (as defined in the Conditions), unless and until the Interest due and payable on the Notes on any subsequent Interest Payment Date has been paid in full or no Notes remain outstanding.

For further information, see Condition 5 (*Interest*).

It is TBC Bank's current intention that, whenever exercising its discretion to declare ordinary share dividends, or TBC Bank's discretion to cancel Interest on the Notes, TBC Bank will take into account, among other factors, the relative ranking of these instruments in the capital structure. However, TBC Bank may depart from that current intention at any time in its sole discretion and will not be required to provide Noteholders with prior notice of such departure.

Status of the Notes: . . . . The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders are subordinated as described in Condition 4 (*Subordination of the Notes*), but subject to any other ranking that may apply as a result of any mandatory provision of law (or otherwise).

For further information, see Condition 3 (*Status*).

Optional Redemption: . . . . All, and not only some, of the Notes may be redeemed at the option of the Issuer, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), on any Interest Payment Date falling on or after the First Reset Date, at the Redemption Price (as defined in the Conditions).

The Notes may further be redeemed on or after the Closing Date at the option of the Issuer (subject to the prior consent of the Competent Authority, if required, and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Tax Event (as defined in the Conditions) that is continuing.

The Notes are redeemable on or after the Closing Date at the option of the Issuer (subject to the prior consent of the Competent Authority, if required, and otherwise in accordance with Applicable Banking Regulations then in force) in whole but not in part, at any time, at the Redemption Price if there is a Capital Event that is continuing.

In addition, if there is an Approval Event, the Issuer may elect to redeem the Notes, in whole but not in part, within 30 days of the Approval Date (as defined in the Conditions), at the Redemption Price.

For further information, see Condition 7 (*Optional Redemption*).

Trigger Event: . . . . A "**Trigger Event**" is deemed to have occurred if, at any time, as determined by the Issuer, the Competent Authority or an agent appointed by the Competent Authority, the CET1 ratio (as defined in the Conditions) of the Issuer (calculated on a standalone basis) is less than 5.125%.

Viability Event: . . . . A "**Viability Event**" is a circumstance and/or event, when (a) in accordance with Applicable Banking Regulations; and/or (b) in the determination of the Competent Authority:

(i) a Write Down of the Notes and a write down of any Write Down Instruments, without which the Issuer would become non-viable (as determined in accordance with Applicable Banking Regulations), is necessary; and/or

	(ii) a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable (as determined in accordance with Applicable Banking Regulations), is necessary; and/or (iii) any other event or circumstance has occurred which is specified as constituting the non-viability (as determined in accordance with Applicable Banking Regulations) of the Issuer by the Competent Authority or in Applicable Banking Regulations.
Write Down Event:	A "**Write Down Event**" is the occurrence of a Trigger Event or a Viability Event.
Write Down:	In the event a Write Down Event has occurred and is continuing on the date on which the Write Down measures become effective (which shall occur on or prior to the date falling 30 Business Days after the occurrence of the Write Down Event) (the "**Write Down Measure Effective Date**"), on the Write Down Measure Effective Date: (a) any applicable monetary damages for which the Issuer may be liable under the Notes will be cancelled in full; (b) any applicable accrued and unpaid interest will be cancelled in full; and (c) the Outstanding Principal Amount will be written down in full, *provided that*, the Competent Authority, in its sole discretion, and in accordance with Applicable Banking Regulations, may determine that any such monetary damages, accrued and unpaid interest and/or Outstanding Principal Amount need only be cancelled or written down (as the case may be) in part only (and not in full) in order to remedy the relevant Write Down Event, *provided further that*, (i) the Outstanding Principal Amount may only be used to remedy a Write Down Event *pro rata* with the Write Down Instruments, and (ii) monetary damages and accrued interest may only be cancelled by the Issuer *pro rata* with monetary damages and accrued interest on the Write Down Instruments, *provided further that*, the effectiveness of a write down or cancellation under a Write Down Instrument shall not prejudice any write down of the Notes or any cancellation of monetary damages or accrued interest under the Notes. Any monetary damages and/or accrued Interest that has been cancelled by the Issuer in accordance with Condition 6 (*Write Down*) shall not accumulate or be payable at any time thereafter, including where the relevant Write Down Event is no longer continuing. No Interest shall accrue or be paid if and for so long as a Write Down Event has occurred and is continuing. A Write Down Event may occur on more than one occasion (and monetary damages and accrued interest may be cancelled and the Notes may be written down on more than one occasion).

Substitution/variation:	If a Capital Event or a Tax Event has occurred and is continuing, the Issuer (in its sole discretion, but subject to Condition 7(l)), having given not less than 30 nor more than 60 days' notice to the Noteholders, may, without any requirement for the consent or approval of the Noteholders, but subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), either substitute all (but not some only) of the Notes for, or vary the terms of the Notes (including changing the governing law of the Notes) so that the Notes remain or, as the case may be, become Qualifying Additional Tier 1 Notes (as defined in the Conditions).
Waiver of set-off:	No Noteholder may at any time exercise any right of, or claim for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Notes against any right, claim, or liability the Issuer has or may have or acquire against such Noteholder, directly or indirectly, howsoever arising. Each Noteholder shall be deemed to have waived all rights of, or claims for, deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with the Notes to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities.
Purchases:	Neither the Issuer nor any of its Subsidiaries may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise unless such purchase or acquisition is permitted by Applicable Banking Regulations then in force. The Parent Entity (as defined in the Conditions) may purchase or otherwise acquire any of the outstanding Notes only subject to the prior consent of the Competent Authority. No purchase should be directly or indirectly financed by the Issuer.
Voting Rights:	The Conditions of the Notes contain provisions for convening meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. For further information, see Condition 15 (*Meetings of Noteholders, Modification, Waiver and Substitution*).
Withholding Tax and Additional Amounts:	As provided in Condition 11 (*Taxation*), all payments of Interest and other amounts payable in respect of the Notes by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature unless the withholding or deduction is required by law. In the event that any such withholding or deduction is imposed or levied by or on behalf of Georgia, the Issuer shall (to the extent such payment can be made on the same basis as for payment of any Interest in accordance with Condition 5 (*Interest*)) pay such Additional Amounts as will result in Noteholders receiving such amounts as they would have received had no such withholding or deduction been required. For further information, see Condition 11 (*Taxation*) and "*Taxation*" below.

Form:	The Notes will be issued in registered form, without coupons attached, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will be represented by interests in a Regulation S Global Certificate and a Rule 144A Global Certificate, each in registered form without coupons. The Regulation S Global Certificate will be deposited with, and registered in the name of, a nominee for the common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Certificate will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC. Ownership interests in the Regulation S Global Certificate and the Rule 144A Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg. The Global Certificates will be exchangeable for Definitive Certificates only in the limited circumstances described under "*Overview of Provisions Relating to the Notes in Global Form*".
Credit Ratings:	The Issuer has local- and foreign-currency ratings of "Ba2" and "Ba3" for long-term and short-term issuer default ratings, respectively, from Moody's Investors Service Limited ("**Moody's**"). TBC's short-term deposit and counterparty risk ratings are Not-Prime. Moody's outlook on the long-term rating is stable. The Issuer has a "BB−" long-term foreign currency issuer default rating, a "B" short-term foreign currency issuer default rating, a "BB−" viability rating and a "4" support rating from Fitch. Fitch's outlook for the Issuer's long-term default rating is stable. The Notes are expected to be rated "B-" by Fitch. Each of Fitch and Moody's is a credit rating agency established and operating in the European Community prior to 7 June 2010 and registered under the CRA Regulation.
Listing:	Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Regulated Market of Euronext Dublin. In addition, an application may be made to list the Notes on the GSE.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law, except that the provisions of Conditions 3 (*Status*) and 4 (*Subordination of the Notes*) relating to the status and subordination of the Notes will be governed by, and construed in accordance with, Georgian law.
Selling Restrictions:	The Notes have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The offer and sale of the Notes is also subject to restrictions in the United Kingdom, Georgia, Switzerland, the Russian Federation, Azerbaijan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Singapore, Hong Kong and Turkey. See "*Subscription and Sale*".

Security Codes:	**Regulation S Notes:** ISIN: XS1843433126 Common Code: 184343312 **Rule 144A Notes:** ISIN: US48128XAB91 Common Code: 111730571 CUSIP: 48128XAB9

RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of Notes should carefully read this Prospectus in its entirety. In addition to the other information in this Prospectus, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment in the Notes. Any of the risks described below could have a material adverse effect on TBC's business, financial condition and results of operations. If any of the following risks actually occurs, the market value of the Notes may be adversely affected. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. Although TBC believes that the risk factors described below represent the principal risks inherent in investing in the Notes, there may be additional risks and uncertainties that TBC currently considers immaterial or of which TBC is currently unaware, and any of these risks and uncertainties could have similar effects to those set forth below. Accordingly, TBC does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Risks Relating to TBC

TBC's loan portfolio is heavily denominated in foreign currencies, and the quality of TBC's loan portfolio may deteriorate as a result of slower economic growth and Lari depreciations and devaluations

A significant percentage of TBC's loans (and of loans in Georgia generally) is denominated in currencies other than Lari, particularly U.S. dollars. According to the NBG, 56.7% of loans in Georgia were denominated in foreign currencies as at 31 March 2019. As at the same date, 59.6% of TBC's total gross loans and advances to customers (before provision for loan impairment) ("**gross loans**") were denominated in foreign currencies. 81.1% of TBC's mortgage portfolio was denominated in foreign currencies as at 31 March 2019 (although only 54.7% of TBC's mortgage loans were disbursed in foreign currencies in the first quarter of 2019, compared to 78.4% in the first quarter of 2018, reflecting the impact of the more conservative underwriting criteria for foreign currency loans introduced as a requirement by the NBG in January 2019, including the requirement that all bank credits and loans up to GEL 200,000 be issued in Lari).

As at 31 March 2019, 59.6% of TBC's gross loans and 56.0% of TBC's retail, 70.0% of corporate and 52.2% of MSME gross loans were denominated in foreign currency (with 47.5%, 43.2%, 56.1% and 43.6%, respectively, denominated in U.S. dollars). Of these foreign currency loans, 71.3%, 48.6%, 85.7% of retail, corporate and MSME gross loans, respectively, were to customers who earn their income in Lari. As the majority of TBC's customers with foreign-currency denominated loans depend on Lari-denominated income, any depreciation of the Lari against the currency of the loan may result in customers facing difficulties repaying their loans. While the income of a number of Georgians is directly linked to foreign currency via remittances from abroad or exports (in the case of business borrowers), customers may not be protected against significant fluctuations of the exchange rates of the Lari against the currency of the loan, such as the depreciation of the Lari against the U.S. dollar in 2015. Although TBC takes steps to mitigate the risk of depreciation of the Lari against foreign currencies, significant depreciation of the Lari against the U.S. dollar or other foreign currency in which TBC's loans to customers are denominated may result in difficulties related to the repayment of such loans, which, in turn, may lead to a decrease in the quality of TBC's loan portfolio and an increase in impairment provisions for loans extended to TBC's customers.

Since the second half of 2014, the Georgian economy has been affected by falling global commodity prices and negative spillovers from the recession in Russia, as well as by depreciation of the currencies of Georgia's main trading partners. See "*—Macroeconomic and Political Risks Related to Georgia—TBC is subject to risks associated with political, financial and economic instability in Georgia and the wider region*". Exports also fell by 4.2% in 2016, although, beginning in the second half of 2016, remittances began to show signs of recovery and this recovery trend continued throughout 2017, as exports increased by 29.5% compared to 2016 and remittances increased by 20.5% compared to 2016. This trend continued and exports increased by 22.6% and remittances increased by 13.9%, respectively, in 2018 as compared to 2017. The increase in exports, remittances and tourism revenues along with moderate growth in imports, supported the relative stability of the USD/GEL exchange rate. The Lari depreciated against the U.S. dollar by 4.3% in 2016, by 6.0% in 2017, and by a moderate 1.0% in 2018. In order to mitigate the impact of depreciation related increases in inflation expectations, the NBG tightened its monetary policy in 2017, having relaxed its monetary policy stance in 2016 as weak aggregate demand and falling global commodity prices eased price pressures. Despite the tightening of monetary policy, total Georgian banking sector Lari-denominated loans increased significantly, supported by the "Larisation" measures taken by

the NBG and the Government. Foreign currency loans as a percentage of total gross loans in Georgia fell from 65.4% in 2016 to 57.1% in 2017 and 2018, according to NBG data; similarly, the percentage of foreign-currency denominated loans in TBC's gross loan portfolio decreased from 65.9% as of 31 December 2016 to 59.7% and 60.1% as of 31 December 2017 and 2018, respectively, and to 59.6% as of 31 March 2019. Total Georgian banking sector Non-performing Loans decreased to 2.7% as of 31 December 2018, from 2.8% as of 31 December 2017, after declining from 3.4% as of 31 December 2016 (based on the IMF's internationally comparable methodology). Although economic growth in Georgia has accelerated since the end of 2016 due to more favourable external conditions (according to Geostat, real GDP growth was 4.8% in the year ended 31 December 2017 and the year ended 31 December 2018 real GDP growth was 4.7%), there can be no assurances that any such factors will continue and contribute to further economic growth or that the growth for the coming years will follow the same trend.

Furthermore, in the event of a depreciation or devaluation of the Lari against foreign currencies, the Government and/or the NBG may introduce certain regulatory measures in respect of portfolios denominated in foreign currency, including changing the financial terms of loans granted in foreign currencies and/or converting loans denominated in foreign currencies to Lari at historic exchange rates, thereby transferring to commercial banks all or a significant portion of the economic cost of such loans. Regulators in other jurisdictions, including Croatia, Romania, Hungary and Serbia, have introduced such measures to protect customers from changes in the value of their mortgages due to changes in the relevant foreign currency exchange rate, and there can be no assurance that the Government and/or the NBG will not take similar measures.

TBC applies what it considers to be conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies. In addition to the measures in place throughout the underwriting process, TBC actively monitors and assesses the quality of loans denominated in foreign currencies through stress-testing exercises and holds sufficient capital buffers against unexpected losses. Although these policies are intended to manage risk related to TBC's foreign currency-denominated (and in particular, U.S. dollar) loan book, the continued quality of the loan book and TBC's future cost of risk is dependent on macroeconomic conditions. In particular, any depreciation or devaluation of the Lari against the U.S. dollar may result in TBC's customers facing difficulty in meeting their payment obligations. There is no assurance that TBC's scenario testing and possible loss limitation, or other mitigating actions it may take, will protect it from further losses. If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition and results of operations.

TBC may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion

TBC aims to achieve long-term sustainable growth and profitability of its business across all segments. There can be no assurance, however, that TBC will be able to achieve its major strategic objectives (see "*Description of Business—Strategy*"), including growth of its loan portfolio, maintaining robust profitability and margins, over the longer term, as TBC is subject to certain macroeconomic risks including risks relating to economic growth in Georgia and the wider region, see "*—Macroeconomic and Political Risks Related to Georgia—TBC is subject to risks associated with political, financial and economic instability in Georgia and the wider region*".

TBC's ability to achieve its strategic objectives may be adversely affected by negative trends in the Georgian economy, the economies of neighbouring countries in the region and the performance of the global economy. In addition, TBC's strategic objectives are based, in part, on the expectation that the Georgian banking sector will continue to grow in general. There can be no assurance that these expectations will be met, which could, in turn, adversely affect TBC's ability to achieve its objectives.

There can also be no assurance that the anticipated growth in loans will offset any deterioration in the quality of TBC's loan portfolio. Furthermore, TBC's expansion strategy is expected to be financed through attracting more deposits, additional borrowings and possibly additional capital, as well as cash flows provided by operations. However, external financing and the cost of such financing are dependent on numerous factors, many of which are outside of TBC's control. TBC cannot provide any assurance that it will be able to arrange any such external financing on commercially reasonable terms, if at all, and TBC's inability to access such funding at favourable rates could adversely affect its ability to implement its strategy.

As a key part of its strategy, TBC focuses on increasing customer engagement in its internet and mobile banking platforms. If the adoption of online or mobile device payment methods do not grow and online

and mobile consumption patterns do not further develop and TBC is unable to attract a significant number of new mobile customers and increase levels of mobile engagement, TBC's ability to expand its operations could be affected which, in turn, could impact its business, financial condition, results of operations or prospects.

TBC is already exposed to certain risks of doing business in Azerbaijan through the operations of its Azeri subsidiary, TBC Kredit. In January 2019, TBC Bank signed a shareholder agreement with Azerbaijan's Nikoil Bank shareholders aimed at developing the business in Azerbaijan and consolidating the business of TBC Kredit with Nikoil Bank. This would expose TBC to increased risks arising from credit, market, operational and capital adequacy risks in Azerbaijan. After the completion of the transaction, TBC Bank would own 8.34% of Nikoil Bank with a call option (exercisable by either TBC Bank or the Parent Company, but expected to be exercised by the Parent Company) to bring its or the Parent Company's shareholding in Nikoil Bank to 50% plus one share within four years. Based on Nikoil's current business plan and current assumptions related to the formula that will be used to calculate the exercise price of the call option, the option value is estimated to be approximately US$ 110 million by the fourth year (option price is linked to equity of the bank and this estimation also includes an assumption of further investment from the major shareholder of Nikoil Bank in the amount of US$ 84 million). Although TBC expects that this option will be exercised by the Parent Company, there can be no assurance that this will be the case. In addition, the other shareholders of Nikoil Bank hold a put option, exercisable for three years after the second anniversary of the exercise of the call option, requiring TBC to acquire their Nikoil Bank shares. If either the call option or the put option is exercised, it could expose TBC to the risk of a capital shortage and negatively impact its capital adequacy.

If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition and results of operations.

TBC may not be able to maintain the quality of its loan portfolio

The quality of TBC's loan portfolio may deteriorate due to external factors beyond TBC's control, such as negative developments in Georgia's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, any failure of its risk management procedures or rapid expansion of its loan portfolio, decline in the value of collateral used to secure loans and changes in the creditworthiness of TBC's loan customers during the life of the loans. In addition, deterioration in the future performance of the Georgian economy or any stagnation or reduction in levels of personal income, individual purchasing power or consumer confidence may cause the demand for consumer financial services and consumer goods to decrease. For example, in 2015 and 2016, TBC's loan book quality was negatively affected by the economic slowdown in Georgia and Russia. As of 31 December 2018 and 31 December 2017 and 2016, Non-performing Loans accounted for 3.1%, 3.3% and 3.5% of gross loans, respectively. Loans that would otherwise be overdue or impaired, but whose terms (including as to principal and interest payment) have been renegotiated due to the borrowers' existing or potential inability to pay, accounted for 3.0% of gross loans as of 31 December 2018, 3.3% as of 31 December 2017 and 4.3% as of 31 December 2016. In addition, expected credit losses ("**ECL**")/ impairment charges and, in turn, the cost of risk could increase if a single large borrower defaults or a material concentration of smaller borrowers default. For more details on ECL, see Note 7 to the Unaudited Consolidated Interim Financial Statements.

TBC continuously monitors market conditions and reviews market changes, and it also performs stress and scenario testing to test its financial position under adverse economic conditions. Notwithstanding these precautions, any future deterioration in the quality of the loan portfolio or increase in its loan ECL/ impairment charges could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

TBC's corporate loan portfolio is concentrated

The loan portfolio of the corporate business segment is concentrated, with TBC's top ten corporate borrowers accounting for 9.6% of the loan portfolio (gross of allowances for ECL/impairment loss) as of 31 March 2019, as compared to 10.1% as of 31 December 2018, 8.2% as of 31 December 2017 and 7.6% as of 31 December 2016. The top ten corporate borrowers accounted for 29.6% of the loan portfolio of the corporate business segment as of 31 March 2019, as compared to 33.0% as of 31 December 2018, 28.2% as of 31 December 2017 and 27.0% as of 31 December 2016. In general, corporate customers are sensitive to the cost of their loans and more likely than retail customers to move their business to banks which offer

competitive terms. Although TBC believes it offers highly competitive packages for its corporate customers, there can be no assurance that TBC's corporate customers will not transfer all or a significant portion of their deposits and/or loans to one or more of TBC's competitors.

In addition, to the extent that such borrowers enter into further loan arrangements with TBC, this will increase the credit and general counterparty risk with respect to those counterparties. Although TBC aims to adhere strictly to the limits set by the NBG for large client exposures, monitors the level of concentration in its loan portfolio in line with risk appetite limits, monitors the financial performance of its large borrowers, uses collateral to minimise loss given default and maintains a well-diversified loan book sector concentration, there can be no assurance that any such measures will be successful. Any loss of a key corporate borrower or deterioration in the quality of TBC's loan portfolio of the business segments could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

Collateral values may decline

Collateral represents TBC's most significant credit risk mitigation tool, making effective collateral management one of the key risk management components. Collateral on loans extended by TBC 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. TBC has a largely collateralised portfolio in all its segments, with real estate representing a major share of collateral. As of 31 December 2018, TBC held collateral against gross loans to customers covering 88.8% of the total gross loans to customers. For mortgage loans secured by real estate, TBC imposes a loan-to-value ratio (based on the market value of the real estate used as collateral) at the time the loan is advanced, depending on the value of the secured property. Prior to 1 January 2019, this ratio was no greater than 90% according to TBC's guidelines; since 1 January 2019, TBC has set a maximum loan-to-value ratio of 85% for local currency denominated loans and 70% for foreign currency denominated loans, in line with the regulatory requirements set by the NBG. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which TBC's customers operate may result in illiquidity and a decline in the value of the collateral securing loans, including a decline to levels below the outstanding principal balance of those loans. Furthermore, because a significant majority of TBC's mortgage portfolio is denominated in foreign currencies (81.1% as at 31 March 2019), depreciation of the Lari against those currencies may result in the outstanding principal balance of mortgage loans denominated in foreign currencies exceeding the value of collateral securing such loans.

In addition, declining or unstable prices of collateral in Georgia may make it difficult for TBC to accurately value the collateral that it holds. If the fair value of the collateral that TBC holds declines significantly in the future, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised impaired loans. Further, changes to laws or regulations may impair the value of such collateral. See "*—TBC operates in an evolving regulatory environment and is subject to regulatory oversight with changes to regulations which are difficult to predict*". If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition and results of operations.

Furthermore, TBC may have difficulties in enforcing security due to various factors. Under Georgian law, enforcement of security requires perfection through registration, through possession or by means of creating a financial collateral as defined in the Law of Georgia on the Payment System and Payment Service. Although, to the extent practical, TBC seeks to register all of its security interests in loan collateral as a matter of policy, if TBC fails to register any of its security interests in loan collateral, or fails to do so properly, this may result in its security being invalid or it facing unexpected or conflicting claims of other secured creditors. For example, charges over moveable property may be impracticable to register due to the incapability of the chargee to restrict the subsequent sale of such moveable property.

In addition, foreclosure proceedings may be protracted or ultimately unsuccessful, as borrowers may oppose enforcement by filing lawsuits and obtaining injunctions. In recent years, the Parliament of Georgia (the "**Parliament**") has adopted various legislative measures related to enforcement measures over assets used as collateral, which may have the effect of requiring banks to incur more time and cost to enforce security. For example, several years ago, certain legislative amendments were passed repealing the so-called "police eviction". Currently, a court decision is required in order to evict a borrower from a residential property, whereas prior to December 2015, it was possible to evict a borrower with the help of the police alone (and without a court decision). Accordingly, there is no assurance that TBC will be able to

realise the full value collateral in a timely manner or at all. This could affect TBC's recovery on defaulted loans.

Significant changes or volatility in TBC's net interest margin could have an adverse effect on TBC's performance

TBC derives the majority of its total net income from net interest income. As a result, TBC is affected by fluctuations in its NIM, which, in turn, is affected by key factors such as interest rates, competition for loans and deposits, customer demand and cost of funding. These key factors are influenced by other factors beyond TBC's control, such as global and local economic conditions, the resources of competitors and consumer confidence. In particular, interest rates and cost of funding are highly sensitive to many factors beyond TBC's control, including monetary policies, domestic and international economic and political conditions and the reserve or other policies of the NBG, including the more conservative lending criteria that went into effect in 2019.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period could reduce the NIM. TBC's NIM was 6.1% in the first three months of 2019 compared to 6.8% in 2018, 6.5% in 2017 and 7.8% in 2016. The decrease in NIM in the first quarter of 2019 was mainly the result of changes in TBC's segmental loan mix driven by new, more conservative lending criteria introduced by the NBG and applicable in 2019, mainly due to the new regulatory limitations on TBC's ability to lend money to higher-yield retail customers (see "*Banking Sector and Banking Regulation in Georgia—Responsible Lending to Individuals*"). The decrease in NIM in 2017 was mainly caused by a faster repricing of assets than liabilities, through the competition for newly disbursed loans and through prepayment of loans at times when market interest rates are falling. Any reduction in NIM caused by changes in the key factors outlined above, or otherwise, could have a material adverse effect on net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

In addition, any increase in interest rates for variable rate loans, which represent 46.5% of gross loans to customers as at 31 December 2018, may result in an increase in the periodic instalment amounts payable by TBC's customers in respect of loans. Such an increase may result in difficulties related to the repayment of loans, which, in turn, may lead to a decrease in the quality of TBC's loan portfolio and have a material adverse effect on TBC's business, financial condition and results of operations.

TBC's risk management policies and procedures may not effectively mitigate credit risk

Although TBC invests substantial time and effort in the development, implementation and monitoring of its risk management strategies and techniques, it may nevertheless fail to adequately manage risks under certain circumstances, particularly when it is confronted with unanticipated risks. If circumstances arise that TBC has not identified or adequately considered in its credit risk assessment methodologies or, its measures to assess and mitigate risk prove insufficient, or if its models yield inaccurate results due to rapidly changing facts or environment, TBC may experience material unexpected losses. For example, losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by TBC to mitigate credit risk and to protect against loan losses prove less effective than expected. TBC employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of the loan portfolio. In addition, even though TBC requires regular financial disclosure by its corporate customers or counterparties, customer and counterparty financial statements may not always present a complete and accurate picture of each customer's or counterparty's financial condition. Some of TBC's corporate customers or counterparties may not have extensive or externally-verified credit histories, and their accounts may not be audited by a reputable external auditor. Therefore, notwithstanding TBC's credit risk evaluation procedures, TBC may be unable to evaluate effectively the current financial condition of each prospective corporate borrower or counterparty and to evaluate effectively the ability of such corporate borrower or counterparty to repay its loans when due. Furthermore, lending to MSME and retail customers may carry with it greater risks than expected. MSME customers typically have less formalized financial statements than large companies, and therefore the financial condition of some business borrowers and private individuals transacting business with TBC is difficult to assess and predict. Accordingly, the risk management systems employed by TBC may prove insufficient in measuring and managing risks, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

TBC is subject to operational risk inherent in banking activities

TBC is subject to the risk of incurring losses or undue costs due to the inadequacies or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. The financial services industry is exposed to the risk of misconduct by employees, which could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines, as well as serious reputational or financial harm.

The proper functioning of the banking systems, risk management, internal controls, accounting, customer service and other information technology systems, such as loan origination, are critical to TBC's operations. Over the past few years, as its operations have expanded, TBC has seen an increase in external fraud, although losses from such fraud have not been significant. TBC is also subject to five major cyber-security threats: data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance e-mail attacks. Although to date cyber-security threats have not materially affected TBC's operations, it is expected that such threats will continue to increase, which will require TBC to closely monitor such threats. TBC may experience system failures, denial-of-service attacks, and other events or conditions from time to time that interrupt the availability, or reduce or adversely affect the speed or functionality, of its mobile and digital platforms. Actual or perceived breaches of TBC's security could interrupt its operations, resulting in, among other things, its systems or services being unavailable, improper disclosure of data, and certain legal and financial exposure. Failure to improve or maintain technology infrastructure could result in unanticipated system disruptions, slower response times, impaired user experience and delays in reporting accurate operating and financial information. If TBC experiences problems with the functionality and effectiveness of its software or platforms, or is unable to improve or maintain its technology infrastructure as required to meet its business needs, its business, financial condition, results of operations or prospects could be adversely affected.

Money laundering has also increased globally and is continuously monitored by the Compliance Department, which reports directly to the CEO. See "*—If TBC fails to comply with any applicable regulations relating to, or is associated with, money laundering or terrorist financing, this could have an adverse effect on TBC*".

Although Management believes that TBC's risk management policies and procedures (which are designed to identify and analyse relevant risks to the banking business, prescribe appropriate limits to various risk areas and monitor the level and incidence of such risks on an on-going basis) are adequate and that TBC is currently in compliance in all material respects with all laws, standards and recommendations applicable to it, any failure of TBC's risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties adequately to perform key outsourced activities, such as card processing and the transportation of cash, could have a material adverse effect on TBC's business, financial condition and results of operations.

TBC faces liquidity and funding risk

TBC is exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Although Management believes that TBC currently has sufficient financial resources available to execute its strategy and to meet its obligations as they fall due, liquidity risk is nevertheless inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as the global financial crisis that commenced in 2007. Financial markets worldwide may continue to experience a reduction in liquidity and long—term funding as a result of global economic and financial factors. The availability of credit in emerging markets, in particular, is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings of TBC, or Georgia, central bank or state interventions or debt restructurings in a relevant industry), could affect the price or availability of funding for Group companies, operating in any of these markets.

TBC seeks to manage its liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including individual and legal deposits, inter-bank borrowings and borrowings from the NBG and the Ministry of Finance of Georgia (the "**Ministry of Finance**")) and

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

Customer deposits are one of the most important sources of funding for TBC. As of 31 March 2019, 31 December 2018, 2017 and 2016, 90.5%, 90.4%, 90.9% and 91.5%, respectively, of amounts due to customers had contractual maturities of one year or less, and 60.8%, 62.4%, 63.8% and 62.0%, respectively, of amounts due to customers were payable on demand. As of the same dates, the ratio of net loans to amounts due to customers was 107.9%, 106.3%, 106.3% and 110.4%, respectively, the NBG liquidity ratios were 35.9%, 33.3%, 32.5% and 30.8%, respectively, and the LCR was 117.5%, 113.9% and 112.7% as of 31 March 2019, 31 December 2018 and 2017, respectively. In terms of current and short-term liquidity, TBC is exposed to the risk of unexpected, rapid withdrawal of deposits by its customers in large volumes. Circumstances in which customers are more likely to withdraw deposits in large volumes rapidly include, among others, a severe economic downturn, a loss in consumer confidence, an erosion of trust in financial institutions or a period of social, economic or political instability. For example, in the first quarter of 2019, TBC experienced a higher volatility of deposit flows. Deposits (excluding a liquidity-neutral deposit from the Ministry of Finance) decreased by GEL 321.3 million (excluding foreign currency effects) in the first three months of 2019 compared to 31 December 2018. The decrease was primarily driven by retail deposit reductions (mostly in January and February) prior to the settlement of the dispute with the NBG (see "*—TBC has been subject to scrutiny by the NBG and remains subject to an ongoing investigation by the Georgian Office of Public Prosecution relating to certain historic transactions*"), but also reflected the effects of seasonality. If a substantial portion of customers rapidly or unexpectedly withdraw their demand or term deposits or do not roll over their term deposits upon maturity, this could have a material adverse effect on TBC's business, financial condition and results of operations.

TBC is subject to certain regulatory ratios

TBC Bank, like all regulated financial institutions in Georgia, is required to comply with certain capital adequacy and regulatory ratios set by the NBG. The current NBG capital regulation is based on a combination of Basel II and III guidelines, with material regulatory discretions applied by the NBG due to the specifics of the local banking industry. In addition to NBG Basel II/III requirements, from 30 June 2014 to 31 December 2017, Georgian banks were also required to comply with certain regulatory capital ratios under the existing NBG regulation, which had been progressively phased out by 1 January 2018.

In June 2017, the NBG adopted a new Regulation on Disclosure Requirements for Commercial Banks under Basel Pillar 3, requiring commercial banks to disclose qualitative and quantitative information about their regulatory capital elements, risk weighted assets, remuneration of senior management and other material issues, within the framework of Basel III.

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

Pillar 1 minimum requirements plus combined buffer requirements

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

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements (Common Equity Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum regulatory capital requirements are currently 4.5% Common Equity Tier 1 Capital, 6.0% Tier 1 Capital and 8.0% Total Regulatory Capital (whereas previously the minimum regulatory capital requirements were 7.0% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Regulatory Capital); and
- the introduction of a requirement that banks hold an additional "combined buffer" through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of risk-weighted assets ("**RWAs**"), while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated three commercial banks in Georgia, including TBC, as domestic systemically important banks ("**DSIBs**") for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of 2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to TBC: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards. TBC Bank has been in compliance with the adopted requirements from 31 December 2017.

Pillar 2 requirements

In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer, credit portfolio concentration buffer, net stress test buffer and net general risk assessment program buffer ("**GRAPE**"). An unhedged currency induced credit risk buffer is effective from December 2017, and a net GRAPE buffer is effective from February 2018. The credit portfolio concentration buffer is effective from 1 April 2018 and the net stress test buffer will be effective from 1 January 2020. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 Capital 4.5%, Tier 1 Capital 6.0% and Total Regulatory Capital 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. Commercial banks have been given appropriate timeframes for the purposes of complying with these requirements, as the additional Pillar 2 buffers will be implemented over a five-year transitional period, during which the required composition of the buffers will become more stringent by increasing the required proportions of Common Equity Tier 1 Capital and Tier 1 Capital.

As of 31 December 2018, the minimum capital requirements were increased to the Common Equity Tier 1 Capital ratio of 9.7% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.7%), a Tier 1 Capital ratio of 11.8% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 2.3%) and Total Regulatory Capital ratio of 16.7% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 5.2%). Management anticipates that the minimum capital requirements will increase to (i) a Common Equity Tier 1 Capital ratio within a range of 10% and 12% for 2019-2021, (ii) a Tier 1 Capital ratio within a range of 13% and 15% for 2019-2021, and (iii) a Total Regulatory Capital ratio within a range of 16% and 18% for 2019-2021.

Capital requirements that TBC Bank is subject to, in particular Pillar 2 requirements, are set by the NBG from time to time. Furthermore, some Pillar 2 buffers depend on the level of exchange rate. Therefore there can be no assurance that the expected minimum capital requirements will not change.

In addition, if TBC acquires a controlling interest in an Azeri-licenced banking institution (such as Nikoil Bank), such entity will also be required to adhere to prudential regulatory requirements in Azerbaijan. See "*Description of Business—Other operations—TBC Kredit*".

TBC Bank is not in breach of any applicable capital adequacy or regulatory ratios and expects to be able to comply with current and future capital ratios that will enter into force. However, TBC Bank's ability to comply with applicable capital adequacy and regulatory ratios could be affected by a number of factors, some of which are beyond its control, including:

- an increase of TBC's RWAs;
- TBC's ability to raise capital;
- losses resulting from a deterioration in TBC's asset quality, a reduction in income levels, an increase in expenses or a combination of some or all of these factors;
- a decline in the values of TBC's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of capital adequacy ratios; and
- increases in minimum capital adequacy ratios imposed by the NBG.

Failure to maintain the minimum capital adequacy, liquidity, leverage, related party credit exposure and other regulatory ratios may have a material adverse effect on TBC. TBC may be subject to penalties from the NBG for violations of capital adequacy and other regulatory ratios. Depending on the seriousness of any violation, the NBG is also authorised to impose other, more stringent and severe sanctions.

More specifically, if TBC Bank fails to meet the Pillar 1 ratios, it may be subject to different types of supervisory measures. Depending on the seriousness of the violation, the NBG is authorised to impose sanctions, including suspension of the signatory authority of TBC Bank's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, placing TBC Bank in temporary administration, and in severe cases, withdrawal of TBC Bank's licence. If TBC Bank fails to meet the combined buffer requirement (the sum of the conservation buffer, countercyclical buffer and systemic risk buffer) or leverage ratio requirement, it will be subject to distribution restrictions in relation to Common Equity Tier 1 Capital, additional Tier 1 Capital instruments, variable remuneration (bonuses) and possibly other distribution constraints imposed by the NBG. In addition, in case of breach of the combined buffer, TBC Bank must submit a capital conservation plan to the NBG about the steps it will take to ensure compliance with the combined buffer requirements. If the NBG assesses that the capital conservation plan is not adequate, it may request TBC Bank to implement additional measures and/or impose further sanctions. The decision on the timing and character of sanctions is the discretion of the NBG and depends on the seriousness of a breach and possible risks. It is considered that the breach of systemic risk buffer is a more serious violation and subject to stricter sanctions. If TBC Bank fails to meet the Pillar 2 requirements, it may be subject to different types of supervisory measures or sanctions from the NBG. The character of such measures or sanctions is the discretion of the NBG and depends on the seriousness of the breach.

Sanctions imposed by a regulator in the case of a material breach of regulatory requirements could impact TBC's ability to conduct its business, and result in an increase in operating costs and loss of reputation, all of which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

TBC is subject to risks relating to potential security breaches of its software and technology infrastructure

Although TBC has implemented in its IT environment various security mechanisms, its products and services may nevertheless be vulnerable to break-ins and similar disruptive problems caused by Internet users. Any of these disruptions would harm TBC's business. Advances in computer capabilities, new discoveries in the field of security or other developments may result in a compromise or breach of the technology TBC uses to protect products and information in electronic form. Computer break-ins and other disruptions would jeopardise the security of information stored in and transmitted through the computer systems of users of TBC's products, which may result in significant liability to TBC and may also deter potential customers.

A party who is able to circumvent TBC's security measures could misappropriate proprietary electronic content or cause interruptions in TBC's operations and those of TBC's strategic partners. TBC may be

required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by breaches. If the security of products or services is breached, TBC's results of operations may be materially adversely affected by the liability resulting from the breach.

Even though TBC has not experienced any material security breaches to date, TBC has been constantly targeted by phishing, denial-of-service or other similar cyber-attacks and the intensity and sophistication of malicious behaviour of internet users is increasing. TBC may in the future experience system failures, denial-of-service attacks, and other events or conditions from time to time that interrupt the availability, or reduce or adversely affect the speed or functionality of its platforms. Any prolonged interruption in the availability or reduction in the availability, speed or functionality of TBC's core banking solutions could adversely affect its business. Frequent or persistent interruptions in services could cause current or potential customers to believe that TBC's infrastructure is unreliable, leading them to switch to competitors or to avoid or reduce the use of products and services, and could permanently affect TBC's reputation and brand. Actual or perceived breaches of TBC's security could interrupt its operations, resulting in, among other things, its systems or services being unavailable, improper disclosure of data, material damage to reputation and brand, significant regulatory scrutiny or fines and legal and financial exposure. In addition, such events could cause TBC to incur significant remediation costs, leading to loss of customer confidence in, or decreased use of, TBC's products and services and diverting the attention of Management from the operation of TBC's business. Moreover, if any system failure or similar event results in damages to customers or their business partners, these customers or partners could seek compensation or contractual penalties from TBC for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly for TBC to address.

TBC is currently engaging with a core banking solutions provider to re-engineer its existing monolithic IT core banking platform in order to make it more modular, componentized, robust, scalable, flexible and available around the clock. There can be no assurance that this project will be successful or result in the IT improvements anticipated by TBC. Furthermore, because this is a large scale project affecting multiple areas of TBC's operations, it may be disruptive to TBC's ongoing business functions, or result in interruptions or reductions in TBC's service availability. In addition, capital investments into this core banking re-engineering project, new digital capabilities, such as Space, and others are riskier than TBC's typical capital investment profile. The failure of such projects may result in financial write-offs of these investments, and could have a negative impact on TBC's services and reputation.

Any of these events could adversely affect TBC's business, financial condition, results of operations or prospects.

TBC operates in an evolving regulatory environment and is subject to regulatory oversight with changes to regulations which are difficult to predict

TBC operates in an evolving regulatory environment, which means that its retail, corporate and MSME business segments are subject to changes in regulation imposed by various regulatory bodies. TBC cannot predict what regulatory changes will be introduced in the future or their effect. For example, on 3 May 2017, the NBG issued Decree No. 61/04 setting out new requirements for commercial banks in respect of regulatory capital. Pursuant to the decree, commercial banks are required to have regulatory capital of no less than: (i) GEL 30 million as of 31 December 2017; (ii) GEL 40 million as of 30 June 2018; and (iii) GEL 50 million as of 31 December 2018. In addition, on 15 May 2017 the NBG issued an Order on LCR for Commercial Banks, which became effective from 1 September 2017. Pursuant to that order, banks are required to maintain an LCR, which is defined as the ratio of high quality liquid assets to net cash outflow over the next 30 days. The order requires that, absent a stress-period, the value of the ratio be no lower than 100%. In December 2017, the NBG introduced amendments to the regulations relating to capital adequacy requirements, such amendments making Pillar 1 minimum requirements in Georgia compatible with the framework established by Basel Committee of Banking Supervision, implementing additional capital requirements under Pillar 2 of Basel III and designating three commercial banks in Georgia, including TBC Bank, as DSIBs. In December 2018, the NBG introduced requirements for commercial banks on responsible lending practices, including the payment-to-income ratio ("**PTI**") and loan-to-value ratio ("**LTV**") requirements and specific standards of diligence and inquiry to be followed by commercial banks in retail business. These regulations negatively affected TBC's retail loan book growth and led to a decrease in NIM in the first quarter of 2019, although it had a positive effect on cost of risk (see "*—Significant changes or volatility in TBC's net interest margin could have an adverse effect on TBC's performance*"). In addition, in 2018, the Civil Code of Georgia was amended several times, setting the upper limit of effective interest rate for loans, credits and finance leases issued in Georgia at 50% and

further setting the requirement for all bank credits in the amount of up to (and inclusive) GEL 200,000 to be issued in GEL. See also "*—TBC is subject to certain regulatory ratios*".

In addition, TBC is also subject to significant regulation and governmental supervision. TBC currently enjoys a conducive regulatory environment that allows it to have strong performance in both net interest income and fee and commission income; however, there can be no assurance that the regulatory environment will remain favourable, and any changes in regulation may significantly impact TBC's revenue generation capabilities. If regulations change or TBC expands its businesses, TBC may become subject to additional rules and regulations at a national, international or supranational level, which may impact operations. Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of detailed rules relating to such change. There can be no assurance that the current regulatory environment in which it operates will not be subject to significant change in the future, or that TBC will be able to comply with any or all resulting regulations. See "*—Macroeconomic and Political Risks Related to Georgia—Political and governmental instability in Georgia could have a material adverse effect on the local economy and on TBC's business*". If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition and results of operations. Regulation may also change as Georgia harmonises its laws with the European Union (the "**EU**") in implementing an association agreement (the "**EU Association Agreement**") and a Deep and Comprehensive Free Trade Area (the "**DCFTA**") as part of this agreement with the potential long-term goal of full integration into the EU market. As part of this harmonisation, the Management anticipates that Georgia will adopt any incoming EU regulations. It is not possible to predict the timeframe or extent of such changes or the effect of such changes on TBC's business.

TBC has been subject to scrutiny by the NBG and remains subject to an ongoing investigation by the Georgian Office of Public Prosecution relating to certain historic transactions

In September 2018, TBC was notified that its principal regulator, the NBG, had launched an inspection into three historic loan transactions with a total aggregate value of approximately US$ 17 million involving TBC that took place in 2007 and 2008. The inspection considered whether these loan transactions between TBC and certain entities allegedly related to TBC's then Chairman and Deputy Chairman were in compliance with the NBG President's Decree 116 of 4 May 2001 on Regulation of Conflicts of Interest and Transactions between Bank Administrators and Related Parties. The key findings of the NBG inspection were that, in the view of the NBG, the related party loans in question were (i) made without the required Supervisory Board authorisations, and (ii) written off without any adequate justification and/or write-off report, and the NBG found TBC's recovery action on the collateral to be passive, which, together with other findings (including a breach of certain mandatory ratios as a result of entering into those transactions), led the NBG to conclude that those loan transactions were entered into by TBC in violation of then applicable conflict of interest rules. The NBG at the same time also prohibited TBC from creating new exposures to the then Chairman and Deputy Chairman and their related parties.

On 21 February 2019, TBC and the NBG released a joint statement announcing the conclusion of the NBG inspection. As part of this statement, TBC confirmed that it had agreed to pay a fine of approximately GEL 1 million in settlement of the alleged breaches of the NBG conflict of interest regulations. TBC has paid the fine as part of the settlement. In addition, TBC announced that it would implement a restructuring of its Supervisory Board in line with the NBG requirements whereby TBC's then Chairman and Deputy Chairman would step down from their roles on the Supervisory Board but retain their positions as Chairman and Deputy Chairman of the Board of Directors of TBC's parent company, TBC Bank Group PLC. On 2 April 2019, TBC announced that those resignations from the Supervisory Board had been submitted. TBC announced the appointment of a new independent Chairman of the Supervisory Board on 13 May 2019, and is currently working to appoint another independent member of the Supervisory Board, with the intention of finalising such appointment by the deadlines set by the NBG, currently 30 June 2019. Furthermore, TBC has, with the assistance of external advisers, undertaken internal reviews of TBC's corporate governance and internal controls systems relating to compliance with applicable regulations. Although these reviews did not identify any material deficiencies in TBC's existing internal controls and compliance systems, they did make certain recommendations for further technical improvements which TBC intends to implement.

Although the NBG has announced that it considers matters relating to the inspection to be closed, there can be no assurance that the NBG inspection will not be re-opened or that further regulatory inspections will not be commenced. Therefore, there can be no assurance that if such inspections are reopened that they would be resolved without adverse outcomes for TBC. If this matter is reopened and resolved

adversely to TBC, TBC may be subject to additional fines, penalties, and other sanctions. Any such determinations could also result in adverse publicity or additional reputational harm for TBC, result in deposit outflows or financial damages and harm TBC's business, results of operations and financial condition.

In addition, on 8 January 2019, the Georgian Office of Public Prosecution announced that it had also launched a criminal investigation into the same loan transactions involving TBC that took place in 2007 and 2008 to see if these involved any violation of the criminal code. As of the date of this Prospectus, the Georgian Office of Public Prosecution has not announced the conclusion of its investigation. Therefore, there can be no assurance that the investigation will be resolved without adverse outcomes for TBC, its directors or senior management, or the Parent Company's directors. Investigations of this nature are time-consuming and require a great deal of attention from TBC, its directors and senior management. If this matter is resolved adversely to TBC, its directors or senior management or the Parent Company's directors, TBC, its directors or senior management, or the Parent Company's directors could be subject to further sanctions, which could result in damage to TBC's reputation or its relationship with its auditors, or to its business, results of operations and financial condition, including TBC's liquidity position.

TBC may face substantial fines, other costs and restrictions on its business activities if it fails to comply with legal and regulatory requirements governing the financial industry

TBC operates in a complex legal and regulatory environment. The failure to comply with applicable laws, rules and regulations may result in civil and criminal legal proceedings.

The unfavourable resolution of proceedings and governmental investigations against TBC or those associated with it, including those to which it has recently been subject and similar proceedings or investigations in the future, may have a material adverse effect on TBC's business, results of operations and financial condition. See "*—TBC has been subject to scrutiny by the NBG and remains subject to an ongoing investigation by the Georgian Office of Public Prosecution relating to certain historic transactions*".

While the outcome of government and regulatory authority investigations are unpredictable, they are costly, divert management from the business and may negatively affect TBC's reputation. If these significant risks materialise, then there could be an adverse effect on TBC's business, results of operations or financial condition.

TBC faces competition

In recent years, the Georgian banking sector has become increasingly competitive. According to the NBG, as of 31 March 2019, there were 15 commercial banks operating in Georgia, of which 14 had foreign capital participation. TBC Bank competes with a number of these banks, including Bank of Georgia, Liberty Bank, ProCredit Bank, and VTB Georgia. In addition, both the mortgage market and the market for the provision of financial services to high net worth individuals are highly competitive in Georgia, with some competitors in the mortgage market implementing aggressive pricing policies in order to retain or build their market share. For example, although TBC Bank has been the largest bank in Georgia based on all key metrics (including both loans and deposits) since the acquisition of Bank Republic in 2016, its market-leading share vis-a-vis its competitors in many of these key metrics have narrowed recently, particularly in the retail segment.

Such increased competition may have a negative impact on TBC, particularly if TBC's competitors possess greater financial resources (especially in the case of banks with foreign capital investment or banks which are branches or subsidiaries of non-resident foreign banks, by way of access to funding from foreign capital or their parent entity), have access to lower cost of funding or provide a broader offering of products, or if TBC's competitors merged to significantly enhance their financial resources, access to funding and product offerings. An increase in competition could lead to significant pressure on TBC Bank's market share, which could have a material adverse effect on TBC's business, financial condition and results of operations.

Further, there can be no assurance that the current regulatory environment in which TBC operates with respect to competition and anti-monopoly matters will not be subject to significant change in the future. Anti-monopoly matters with respect to the banking services sector in Georgia are currently overseen by the NBG. However, the Government may, in the future, seek to legislate or regulate competition and anti-monopoly matters in the Georgian banking industry through a governmental agency other than the NBG.

TBC may be required to fund the operations and strategic activities of the Parent Company, whose interests may be different from holders of the Notes

TBC's parent company, TBC Bank Group PLC, is engaged in strategic activities through its other subsidiaries that are intended to enhance and support TBC's business. These include TBC Insurance, which is TBC's main bancassurance partner, and the creation of customer-focused digital ecosystems (such as Vendoo, Swoop and Livo) aiming to provide additional services that TBC's customers need on a daily basis and that are linked to TBC's core activities. Although these activities are not conducted by TBC, but by other companies in the Parent Company group, they are beneficial for TBC's business. The Parent Company group plans to develop these digital ecosystems and establish additional ecosystems during 2019. Although as of 31 March 2019, TBC has not directly provided any capital for these operations, the Parent Company has used dividend funds and other amounts received from TBC Bank to support these activities and may continue to do so going forward. Although TBC and the Parent Company believe that these activities will prove beneficial to TBC by building customer loyalty and provide opportunities to cross sell products across these other platforms, there can be no assurance that this will be the case, or that the further development of these activities will not require additional investments of capital, directly or indirectly, by TBC, or that any benefits accruing to TBC from these activities will outweigh the funding costs that TBC may be required to bear.

In addition, the Parent Company group is also targeting strategic international expansion in selected new markets, including Uzbekistan. Such expansion could expose the Parent Company group to additional risks arising from credit, market, operational and capital adequacy risks in those jurisdictions. Furthermore, political instability, unfavourable regulatory or macro developments in those jurisdictions could also affect the business and strategic expansion plans of the Parent Company group in those countries. In Azerbaijan, TBC is currently in the process of completing a transaction with Nikoil Bank pursuant to which it would hold a call option (exercisable by either TBC Bank or the Parent Company) to bring its or the Parent Company's shareholding in Nikoil Bank to 50% plus one share within four years. Although TBC expects that this option will be exercised by the Parent Company as part of its strategic expansion, if TBC Bank were to exercise the option, it could have an impact on TBC's capital adequacy (see "*—TBC may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion*").

Any of the above factors could negatively impact TBC's reputation or create pressure for TBC to increase dividends, which could have an adverse effect on its businesses and prospects.

TBC is subject to financial and other covenants in its debt agreements, the breach of which may cause TBC to be in default under those agreements

Most loans entered into by TBC as a borrower are subject to financial and other covenants. The financial covenants in some of these loans require TBC Bank, in certain instances, to meet higher thresholds than are required under applicable Georgian banking regulations or to comply with additional financial metrics, such as loan to deposit ratios, net stable funding ratios ("**NSFR**") and other ratios governing overdue and Non-performing Loans. However, if the NBG were to impose financial requirements or ratios that are more stringent than those provided in the agreements, those agreements require TBC Bank to comply with the more stringent ratios. TBC Bank has remained in compliance with all applicable financial covenants in its loan agreements. However, a failure by TBC Bank to comply with these covenants in the longer term may constitute a default under the relevant agreements and could cause cross-defaults under, and potential acceleration of, certain of TBC's other indebtedness and the Notes which could, in turn, materially adversely affect TBC's business, financial condition, results of operations and/or prospects.

Breaches of the terms of TBC's licences may inhibit or prevent TBC's ability to conduct its operations

All banking operations, financial promotion and some ancillary financial services in Georgia require licences, certificates or permission from the NBG (or in the case of TBC Kredit, TBC's subsidiary in Azerbaijan, the relevant authority in Azerbaijan). Although TBC's entities operate under required and proper authorisations, there is no assurance that TBC's entities will be able to maintain such licences and permissions or obtain new ones if necessary in the future. Regulated financial institutions in Georgia are subject to the NBG's supervision and are required to comply with mandatory requirements. Non-compliance with mandatory requirements may lead to revocation of licenses or cancellation of registration. Although no entity of TBC has in the past breached the terms of any NBG authorisation, such a breach or the failure to obtain an NBG licence in the future could result in cash flow difficulties and penalties which may include temporary administration of TBC's entities by the NBG and/or fines imposed by the NBG on TBC, which may, in turn, affect TBC's ability to fulfil its payment obligations, and would have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

If TBC fails to comply with any applicable regulations relating to, or is associated with, money laundering or terrorist financing, this could have an adverse effect on TBC

TBC has implemented comprehensive anti-money laundering (**"AML"**), "know-your-customer", "know your corresponding bank" and "know your employee" policies. Compliance with these policies is monitored by TBC Bank's Compliance Department, and TBC seeks to adhere to all requirements under applicable legislation in relation to money laundering. However, there can be no assurance that these measures will be effective, or that such measures would protect TBC from allegations of AML regulation violations. In addition, applicable regulations related to money laundering and terrorist financing are evolving and are subject to change, and TBC cannot anticipate regulatory developments. Although EU and US sanctions laws do not directly apply to Georgia, TBC has undertaken an obligation in good faith to ensure compliance with targeted financial sanctions and, therefore, changes to existing regulations or the introduction of new regulations may have a direct effect on TBC's policies and activities. If TBC fails to comply with timely reporting requirements or other AML regulations, or is associated with money laundering or terrorist financing, this could have a material adverse effect on its business, financial condition and results of operations. In addition, involvement in such activities may result in criminal or regulatory fines and sanctions. See "*Banking Sector and Banking Regulation in Georgia—Anti-Money Laundering Legislation*" and "*Risk Management—Compliance Risk Management and Anti-Money Laundering*".

Failure to maintain and protect customer and employee information

TBC processes personal data (including names, addresses, age, bank details and other personal data) of its customers, business contacts and employees as part of its ordinary business processes in compliance with personal data protection legislation in Georgia. The personal data protection laws and standards in Georgia impose certain requirements on TBC in respect of data processing, which includes the collection, use, modification, distribution, depersonalisation, blocking, destruction and storage of personal data. Failure to operate effective data protection controls in respect of the processing of personal data, as prescribed by applicable law, could potentially lead to administrative fines.

The Law of Georgia on Personal Data Protection dated 28 December 2011 could be amended, the manner in which the data protection and privacy laws and regulations are enforced or interpreted could change and new laws or regulations on personal data protection could be adopted, including in order to further regulate or restrict the processing of personal data. The likelihood of such changes has been increased by the DCFTA and commitment of the Georgian State Inspector's Office (formerly, the Personal Data Protection Inspector's Office) to conform Georgian personal data protection standards to those established by the EU General Data Protection Regulation. If the existing interpretation of the laws and regulations change or future regulations are imposed, it could have an adverse effect on the Issuer's business.

Customer complaints or negative publicity about TBC could affect its reputation with customers

Customer complaints or negative publicity about TBC could diminish consumer confidence in its services and its reputation with customers. For example, although a complaint filed by a corporate customer in 2018 alleging that TBC violated regulations when opening an account for a customer-affiliated company and permitting disputed transactions on that corporate account was dismissed by the NBG, such claims could have a negative impact on TBC's reputation. The significant growth of TBC's business heightens the need for prompt and attentive customer service to resolve irregularities or customer dissatisfaction. In addition, any significant problems with collection practices employed by external collection agencies, to which TBC outsources collections of its Non-performing Loans could also adversely affect its reputation and brand, although TBC has implemented strict conduct guidelines around the collection process. While TBC constantly takes measures to increase the quality of its customer service, any failure to implement such measures successfully could compromise TBC's ability to handle customer complaints in an effective manner. If TBC is unable to handle customer complaints effectively, its reputation may suffer and it may lose customers' confidence, which could have a negative effect on TBC's strategy implementation or financial results.

The loss of key personnel or the failure to attract, develop or retain skilled or qualified employees could negatively impact TBC's businesses

TBC depends on the capabilities and performance of its key personnel, including its executive officers and employees. As there is a limited pool of potential officers and employees with the relevant expertise that can be recruited in Georgia, TBC's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to its business. There can be no assurance that it will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of its senior management team or an inability to recruit, train or retain necessary personnel could have a material adverse effect on its business.

TBC's strategic decision to transform into a digital company entails increased demand for high caliber IT professionals across the organisation, including affiliates and subsidiaries. As a small country, Georgia has a limited talent pool and increasing demand on IT professionals affects TBC's ability to attract and retain highly qualified technology personnel. The same challenges are faced by TBC's technology partners and contractors. In addition, there is a shortage of specific technology skills on the market, including big data, micro-services, cloud computing and others, which are critical to TBC's ability to remain at the forefront of technological development and remain competitive. Realization of these risks could result in the failure of IT projects, slow time to market, the provision of low quality technology solutions and loss of market competitiveness, all of which could have a material effect on TBC's business.

TBC relies on third parties to provide services, and their failure or inability to fulfil their legal and contractual requirements or meet TBC's quality requirements, among other things, could adversely affect TBC's operations

TBC utilises vendors and third party contractors in connection with projects requiring particular expertise, such as the large scale re-engineering project of its core banking IT platform, which is being undertaken with the assistance of a local core banking solutions provider. TBC anticipates working more closely with such vendors in the future, moving from traditional vendor-customer to a partnership relationship by sharing source code of the re-engineered solution with TBC so that both entities can co-develop the platform via an open source software projects style practice. The ability of these third party contractors to fulfil their obligations is to a certain extent outside the control of TBC, and TBC may have disputes with its third party contractors or their employees, including disputes regarding the quality and timeliness of their work. Repeated failure by these third parties to perform the agreed-upon services according to agreed timetables or to the standard of quality required by TBC's strategic plans may materially impact TBC's ability to meet its objectives, and could have a material adverse effect on TBC's business and reputation. See also "*—TBC is subject to risks relating to potential security breaches of its software and technology infrastructure*".

TBC's insurance policies may not cover, or fully cover, certain types of losses

TBC generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in the United Kingdom and Georgia. TBC also maintains Bankers' Blanket Bond and directors' and officers' liability insurance. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect its existing operations and could, in turn, have a material adverse effect on the business, financial condition and results of operations.

TBC may not be able to maintain its credit ratings

The Issuer has local- and foreign-currency ratings of "Ba2" and "Ba3" for long-term and short-term issuer default ratings, respectively, from Moody's. Moody's outlook on the long-term rating is stable. TBC's short-term deposit and counterparty risk ratings are Not-Prime. The Issuer has a "BB−" long-term foreign currency issuer default rating, a "B" short-term foreign currency issuer default rating, a "BB−" viability rating and a "4" support rating from Fitch. Fitch's outlook for the Issuer's long-term default rating is stable. There can be no assurance that TBC will be able to maintain these credit ratings, and any deterioration in the general economic environment or TBC's financial condition could cause downgrades which could adversely affect TBC's liquidity and competitive position, undermine confidence in TBC, increase its borrowing costs and limit its access to capital markets, any of which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

TBC is reliant on its brand and therefore there are reputational risks which could cause harm to TBC and its business prospects

The success of TBC's strategy relies significantly on the strength and appeal of TBC's brand and reputation with customers in the markets in which it operates. Management believes that TBC's brand provides it with a key competitive advantage. However, there can be no assurance that TBC will be successful in protecting and further developing its brand and leveraging it into market share growth over more established competitors. Any circumstance that causes real or perceived damage to TBC brand could have a material adverse effect on TBC's ability to retain customers and attract new customers. An inability by TBC to manage the risks to TBC brand could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Changes in TBC's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations or could result in non-comparability of the historical financial information

From time to time, the IASB, the EU and other regulatory bodies change the international financial accounting and reporting standards that govern the preparation of TBC's financial statements. These changes can be difficult to predict and can materially impact how TBC records and reports its results of operations and financial condition. In some cases, TBC could be required to apply a new or revised standard retrospectively, resulting in restating prior period financial statements or adjusting the opening balances. In other cases, no restatement of comparative period financial statements will be required and therefore the historical financial information for such prior periods may become non-comparable to the financial information prepared in accordance with new accounting policies or standards. For example, TBC adopted IFRS 9 "Financial Instruments", which replaced IAS 39 effective from 1 January 2018. This standard amends and complements the rules on the classification and measurement of financial instruments. It includes a new impairment model based on ECL, while the IAS 39 model previously used by TBC was based on provisions for incurred losses, and new rules on general hedge accounting. TBC elected not to restate comparative figures and recognised 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. For further information on the impact of transition to IFRS 9 on TBC's consolidated financial statements, see Note 4 to the Audited Consolidated Financial Statements.

In addition, IFRS 16 "Leases" was issued on 13 January 2016 and is 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. TBC has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The effects arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. For further information on the impact of transition to IFRS 16 on TBC's consolidated financial statements, see Note 2 to the Unaudited Consolidated Interim Financial Statements.

In addition, although not a change in TBC's accounting policies or standards, TBC has in the past and may in the future reorganise its business segment categorisations for management efficiency purposes. For example, TBC's segment categorisations were revised in 2018 in order to further enhance control and monitoring of TBC's performance, resulting in a transfer of certain customers between segments. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment analysis*". When such reclassifications occur, certain results by segments following the reclassification may not be comparable with prior periods.

Macroeconomic and Political Risks Related to Georgia

TBC is subject to risks associated with political, financial and economic instability in Georgia and the wider region

Essentially all of TBC's current operations are primarily located in, and most of its revenue is sourced from, Georgia. TBC's results of operations are, and are expected to continue to be, significantly affected by political, financial and economic developments in or affecting Georgia and, in particular, by the level of economic activity in Georgia and the wider region. Factors such as GDP, inflation, interest and currency

exchange rates, as well as unemployment, personal income and corporate finance, can have a material impact on customer demand for its products and services.

Real GDP growth in Georgia accelerated to 4.8% in 2017 from 2.8% in 2016 and 2.9% in 2015, according to Geostat. This rebound in growth was supported by strengthened external economic environment, which was reflected in increased foreign currency remittances from Georgians working abroad, higher net exports from Georgia and increased foreign direct investment ("**FDI**"). According to Geostat, Georgia continues to deliver strong GDP growth, 4.7% in 2018, with inflation remaining well contained at 1.5% in December 2018, comfortably below the NBG's target of 3.0% for the year. According to the IMF World Economic Outlook updated in April 2019, global expansion has weakened and is projected to grow at 3.3% in 2019 and 3.6% in 2020, 0.4 and 0.1 percentage point below projections published in October 2018, respectively. The revision reflects an increase in trade tensions and tariff hikes between the United States and China, a decline in business confidence, a tightening of financial conditions, and higher policy uncertainty across many economies. According to the IMF, activity in the Commonwealth of Independent States (the "**CIS**") is projected to expand by approximately 1.8% in 2019 and 2.0% in 2020, slightly lower than projected in October 2018 due to the drag on Russia's growth prospects from the weaker near-term oil-price outlook. Management believes that Georgia's real GDP growth in 2019 will be in line with the 4.6% forecasted by the IMF, but there can be no assurance that these growth levels will be achieved. Georgia continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation, budget and capital flight. Market turmoil and economic deterioration in Georgia may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of its customers in Georgia. Uncertain and volatile global and regional economic conditions, such as the unpredictability of US regulatory and fiscal policies, the potential adoption of trade restrictions, the negotiation of the United Kingdom's relationship with the EU post-Brexit, economic and political instability in Turkey and heightened geopolitical risk, could have substantial political and macroeconomic ramifications globally, which could, in turn, have a significant impact on the Georgian economy.

The Georgian economy is also dependent upon the economies of other countries, including those in the region, in particular, Russia, Turkey, Azerbaijan and Armenia, and others outside the region, such as the EU. Russia is one of the largest markets for Georgian exports and imports, accounting for approximately 14.5% and 13.0% of Georgia's total exports and approximately 10.0% and 10.3% of Georgia's total imports in 2017 and 2018, respectively, according to Geostat. In 2015 and 2016, the Russian economy was in recession due, in part, to the decline in global oil prices and US and EU sanctions imposed as a result of the on-going political tensions between Russia and the US and the EU arising from the conflicts in Ukraine and Syria. In January 2016, the Russian Rouble declined to an all-time low against the U.S. dollar before recovering modestly during the course of 2016. Although in 2017 the Russian Rouble generally returned to 2015 levels of strength against the U.S. dollar, in 2018 it depreciated again by 17.1%. Turkey represents the largest source of Georgian imports, accounting for 18.6%, 17.3% and 16.1% of total imports in 2016, 2017 and 2018, respectively, according to figures published by Geostat. Although Turkey's economy grew by 7.4% in 2017 and 2.6% in 2018, it is projected to contract by 2.5% in 2019 according to the IMF. Continued economic slowdown in Turkey is a potential obstacle to the growth of the Georgian economy. Azerbaijan and Armenia accounted for 7.2% and 7.1% of Georgia's total exports respectively, in 2016, 9.9% and 7.7% in 2017, respectively, and 15.0% and 8.3%, respectively, in 2018. Following its devaluation by 49.7% against the U.S. dollar and 44.1% against the euro as of 31 December 2015, the Azerbaijan Manat stabilised throughout 2016, 2017 and 2018. The Armenian Dram also experienced a period of stability during 2017 and 2018, having devalued by 14.9% against the U.S. dollar in between 1 October 2014 and 27 February 2015.

The economic slowdowns and currency depreciations in Georgia's main trading partners resulted in lower exports from and remittances to Georgia in the period from 2014 to 2016, while the acceleration of growth in regional economies since 2017 has supported strong growth in exports and remittances. Any further economic disruptions or crises in Georgia's neighbouring markets or other economic partners may have a material adverse effect on Georgia's economy.

Regional tensions and disruptions in neighbouring markets could have a negative effect on Georgia's economy

Georgia shares borders with Russia, Azerbaijan, Armenia and Turkey and has two breakaway territories within its borders, Abkhazia and the Tskhinvali Region/South Ossetia. Ongoing political tensions within the region have led to sporadic outbreaks of violence and the straining of diplomatic relations between Georgia and its neighbours. Russia imposed sanctions on Georgia in 2006, and conflict between the countries escalated in 2008 when Russian forces crossed the international border and a state of war was

declared. Although a French-brokered ceasefire was signed, calling for the withdrawal of Russian troops, Russia recognised the independence of the breakaway regions and tensions persist. The introduction of a free trade regime between Georgia and the EU in 2014 and the European Parliament's approval of a proposal on visa liberalisation for Georgia in February 2017 may exacerbate tensions between these countries. The geopolitical relationship between Russia and Ukraine remains strained following the crisis which began in 2013. Sanctions by the United States and the EU against Russia continue and there is uncertainty as to how and when the conflict between Russia and Ukraine will be resolved. The civil unrest which took place in Turkey during 2016 has placed significant doubt over Turkey's ability to function as a stable regional trading partner for Georgia. The failed coup attempt of 2016 has led to increasingly autocratic governance of Turkey and in April 2017, amendments to the Turkish constitution were approved by voters in a referendum and have since become effective. The amendments, which grant the president wider powers, are expected to transform Turkey's system of government away from a parliamentary system and could have a negative impact on political stability in Turkey. Further geopolitical disharmony in the region, most notably between Azerbaijan and Armenia, may also impact upon Georgia.

Political and governmental instability in Georgia could have a material adverse effect on the local economy and TBC's business

Since its independence from the former USSR in 1991, Georgia has experienced an on-going and substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy.

Georgia faces several challenges, one of which is the need to implement further economic and political reforms. However, business and investor friendly reforms may not continue or may be reversed or such reforms and economic growth may be hindered as a result of any changes affecting the continuity or stability of existing reform policies, or as a result of a rejection of reform policies by the president, the parliament or others.

In October 2010, the Parliament approved certain amendments to the Constitution of Georgia (the "**Constitution**") that were intended to enhance the primary governing authority of the Parliament, to increase the powers of the prime minister of Georgia and to limit the scope of functions of the President of Georgia (the "**President**"). The Parliament adopted certain constitutional amendments further limiting the powers of the President in March 2013. In October 2017, the Parliament made numerous changes to the Constitution introducing, *inter alia*, the indirect election of the President by the Parliament, a fully proportional electoral system of the Parliament starting from 2024, special status to agricultural land, and, raising the minimum age for members of the Parliament and the President. Any further changes to Georgian parliamentary, presidential or prime ministerial powers might create political disruption or political instability or otherwise negatively affect the political climate in Georgia.

In addition, recent anti-government and anti-Russia related protests in Tbilisi have had a number of potentially negative consequences for Georgia and its economy, including, but not limited to: (a) demands that certain politicians resign and that the parliamentary election process is changed; (b) the cessation of direct flights and potentially certain imports between Georgia and Russia; (c) a devaluation of the Lari per U.S. dollar exchange rate from 2.7871 on Thursday, 20 June 2019 to 2.8333 as of Wednesday, 26 June 2019; and (d) other potential direct and indirect consequences which may not be foreseeable as of the date hereof. There can be no guarantee that such protests will not continue and/or intensify in the future, and such consequences may have a negative effect on the Georgian economy, which could, in turn, have a negative effect on TBC's business, financial condition and results of operations.

The uncertainties of the judicial system in Georgia, or any arbitrary or inconsistent state action taken in Georgia in the future, may have a material adverse effect on the local economy, which could, in turn, have an adverse effect on the business

Georgia is still developing an adequate legal framework with several fundamental civil, criminal, tax, administrative and commercial laws recently becoming effective. The recent introduction of this legislation and the rapid evolution of the Georgian legal system have resulted in ambiguities and inconsistencies in their application, including their enforceability. In addition, the court system in Georgia is understaffed and has been undergoing significant reform. Judges and courts in Georgia are generally less experienced in commercial and corporate law than in certain other countries, particularly in the EU and the United States. The uncertainties of the Georgian judicial system, and any decision made by the Georgian courts,

could have a negative effect on the Georgian economy, which could, in turn, have a material adverse effect on TBC.

Noteholders may face difficulties enforcing judgments, including foreign arbitral awards, in respect of the Notes and against the Issuer

On the basis of certain precedents established by foreign judiciaries, it may not be possible to effect service of process against the Issuer in courts outside Georgia or in a jurisdiction to which the Issuer has not explicitly submitted.

The Issuer has not submitted to the jurisdiction of any courts, but instead has agreed to resolve disputes by arbitration in accordance with the rules and procedures of the LCIA. Georgia is a party to the New York Convention. Therefore, an arbitration award obtained in a country which is also a party to the New York Convention, such as the United Kingdom, would be enforceable in Georgia, subject to the terms of the New York Convention and compliance with Georgian law. Pursuant to Article 45.1 of the Arbitration Law, arbitral awards against the Issuer, irrespective of the country in which they are rendered, may not be recognised and enforceable in Georgia if: (i) the party against whom the award is made proves before Georgian courts that: (a) a party to the arbitration at the time of entering into an arbitration agreement lacked legal authorisation or was a beneficiary of support (a person lacking legal capacity) who had an appointed supporter in relation to issues under the arbitration agreement but did not receive relevant support, or the arbitration agreement is void or set aside pursuant to the law specified by the parties in the arbitration agreement or, in the absence of such, based on the laws of the place where the award was made; (b) a party was not duly informed about the appointment of the arbitrator or the arbitration proceedings, or was not otherwise able to present its position or defend its interests; (c) the arbitral tribunal issued the award on a subject matter which was not submitted to arbitration by the parties or which goes beyond the scope of the claim of the parties in the arbitration. Provided that the decisions on matters submitted to arbitration can be separated from those not so submitted, only that part of the award which contains decisions on matters submitted to arbitration may be recognised and enforced; (d) the composition of the arbitral tribunal or the procedure of the arbitration was not in accordance with the arbitration agreement, or, in the absence of such agreement, the arbitration was conducted in violation of the laws of the place of arbitration; or (e) the arbitral award has not yet become binding and/or has been set aside or suspended by the courts of the state in which, or under the laws of which, the award was made; or (ii) the court establishes that: (a) the subject matter of the dispute is not subject to arbitration under Georgian law; or (b) the recognition and enforcement of the award is contrary to public order. It may be difficult, however, to enforce arbitral awards in Georgia due to a number of factors, including the lack of experience of Georgian courts in international commercial transactions, certain procedural irregularities and Georgian courts' inability to enforce such orders, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award in Georgia.

There may be challenges associated with legislative harmonisation of the Georgian regulatory environment with the EU driven by the DCFTA

On 27 June 2014, Georgia entered into the EU Association Agreement and established a DCFTA (effective since 1 September 2014) with the EU, which envisages bilateral trade liberalisation with the EU with effect from 1 July 2016. The implementation of the EU Association Agreement is expected to create new business opportunities, although it may pose challenges for businesses, households and the state. The implementation of the EU Association Agreement and the DCFTA may require Georgia to conform to EU trade-related and sector-specific legislation, which is expected to be challenging, especially in the areas of environmental protection and customer safety, including product and safety information, among others.

Georgia has been gradually conforming its trade legislation to EU norms and practices since it became a member of the World Trade Organisation in 2000. For example, in 2013, it introduced amendments to the labour code to bring Georgian labour regulations closer to commitments under the EU Association Agreement and the DCFTA. These amendments required employers to pay overtime, increased severance pay (from one to two months' salary), strengthened workers' rights to challenge employers' decisions in courts, prohibited dismissal without clear cause, and guaranteed basic working conditions. The amendments also strengthened the competition laws in Georgia, which could restrict TBC's ability to make further acquisitions in line with its growth strategy.

Other changes may be expected in governmental policy, including changes in the implementation or approach of previously announced government initiatives. In addition, the implementation of the EU

Association Agreement may place a significant burden on regulatory bodies, divert their resources from on-going reforms and slow their efficiency.

As a result of expected regulatory amendments to achieve harmonisation with EU legislation, TBC may be required to adjust its policies and procedures to comply with any resulting changes in laws and regulations. TBC expects that there will be changes, although it cannot predict the extent to which it might be affected by, or able to comply with, any such changes. If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition and results of operations.

Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against TBC and there may be changes in current tax laws and policies

Tax laws have not been in force in Georgia for significant periods of time compared to more developed market economies. This creates challenges in complying with tax laws, to the extent that such tax laws are unclear or subject to differing interpretations, and subjects companies to the risk that their attempted compliance could be challenged by the authorities. Tax law enforcement can also be unpredictable, such as the imposition of liens over Group's assets.

Moreover, such tax laws are subject to changes and amendments, which can result in unusual complexities for businesses. A new tax code (the "**Tax Code**") came into effect on 1 January 2011. In 2011, the Parliament passed the Organic Law on Economic Liberty prohibiting the introduction of new state-wide taxes or increases in the existing tax rates (other than excise) without a public referendum initiated by the Government (except in certain limited circumstances). These restrictions have been in effect since 31 December 2013 and will remain in effect for 12 years starting from 16 December 2018. Differing opinions regarding the interpretation of various provisions of the Tax Code exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties, inconsistencies and areas of conflict. However, the Tax Code does provide for the Georgian tax authorities to give advance tax rulings on tax issues raised by taxpayers. While Management believes that TBC and TBC's group companies operating in Georgia (including TBC Bank) are currently in compliance with the tax laws, it is possible that the relevant authorities could take differing positions with regard to their interpretation, which may result in tax adjustments or fines. There is also a risk that TBC could face fines or penalties as a result of regular tax audits.

In addition, tax laws and Government tax policies may be subject to change in the future, including changes resulting from a change of Government. See "*—Political and governmental instability in Georgia could have a material adverse effect on the local economy and TBC's business*". Such changes could include the introduction of new taxes or an increase in the tax rates applicable to TBC or its customers, which may, in turn, have a material adverse effect on its business.

In May 2016, the Parliament adopted changes to the Tax Code related to corporate profit tax, whereby an enterprise will not be liable for the payment of profit tax until the enterprise distributes its profit to the shareholders or incurs such costs or makes supplies or payments that are subject to corporate profit tax. It is expected that this change will intensify the economic activity and increase the capitalisation of the private sector. The relevant amendments to the Tax Code have applied with effect from 1 January 2017 for all entities apart from certain financial institutions, including banks and insurance businesses (changes were to become applicable to financial institutions, including banks and insurance businesses from 1 January 2019). On 12 June 2018, an amendment to the corporate taxation model applicable to financial institutions, including banks and insurance businesses, became effective. The change implies a zero corporate tax rate on retained earnings and a 15% corporate tax rate on distributed earnings starting from 1 January 2023, instead of 1 January 2019, as previously enacted in 2016. There can be no assurance, however, as to whether these amendments will achieve the desired result.

Instability or a lack of growth in the domestic currency market may have an adverse effect on the development of Georgia's economy and, in turn, have an adverse effect on TBC

Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, the total volume of trading turnover in the Lari-U.S. dollar and Lari-Euro markets (including activities of the NBG) amounted to US$32.7 billion and €11.6 billion, respectively, in 2018, as compared to US$25.4 billion and €6.9 billion, respectively, in 2017, and US$28.7 billion and €10.8 billion, respectively, in 2016. Excluding activities of the NBG, the total volume of trading turnover in the Lari-U.S. dollar market amounted to US$32.5 billion in 2018, as compared to

US$25.2 billion in 2017, and US$28.2 billion in 2016 (the NBG was not active in the Euro market). According to the NBG, it had US$3.5 billion in gross official reserves as of March 2019 as compared to US$3.0 billion in 2017. While these reserves will be sufficient to sustain the domestic currency market in the short term, a lack of growth of this currency market may hamper the development of Georgia's economy, which could have a material adverse effect on the businesses of TBC's corporate customers and, in turn, a material adverse effect on TBC's business, financial condition and results of operations. Moreover, to the extent that U.S. dollars are not available in the market, this may impact TBC's ability to pay amounts due under the Notes.

In addition, a lack of stability in the currency market may adversely affect Georgia's economy. There was significant instability in the Lari to U.S. dollar exchange rate following the Russian financial crisis of August 1998, following the conflict with Russia in 2008 and following the regional economic slowdown due to the fall in oil prices in 2015. In 2015, the NBG allowed the Lari to depreciate by 28.5% and by a further 10.5% in 2016, in a measure aimed at alleviating the negative impact of the economic slowdown in neighbouring countries on the Georgian economy. While the Lari generally appreciated against the U.S. dollar and other major international currencies in the first half of 2016, primarily driven by an increase in the number of tourists travelling to Georgia, the Lari exchange rate experienced depreciation in the second half of 2016. The Lari/U.S. dollar exchange rate was 2.6468 as of 31 December 2016, 2.5922 as of 31 December 2017 and 2.6766 as of 31 December 2018. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI and other currency inflows. Any failure to do so, or a major depreciation or further depreciation of the Lari, could adversely affect Georgia's economy.

According to information published by Geostat, annual inflation in Georgia, as measured by the end-of-period Consumer Price Index, was 1.8%, 6.7% and 1.5% in 2016, 2017 and 2018, respectively. There is no guarantee that the Georgian economy will not be further affected by domestic or global increases in food, consumer products and oil prices. Deflation, while increasing the purchasing power of the Lari, could adversely affect foreign investment and profitability in the lending activities of TBC. On the other hand, high and sustained inflation could lead to market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Georgia's economy and negatively affect TBC's customers, which could, in turn, have a material adverse effect on its business.

There are additional risks associated with investing in emerging markets such as Georgia

Emerging markets may have higher volatility, more limited liquidity and a narrower export base than more mature markets and are subject to more frequent changes in the political, economic, social, legal and regulatory environment. They are subject to rapid change and are particularly vulnerable to market conditions and economic downturns elsewhere in the world.

In addition, international investors may react to events, disfavouring an entire region or class of investment, a phenomenon known as the "contagion effect". If such a contagion effect occurs, Georgia could be adversely affected by negative economic or financial developments in other emerging market countries. Georgia has been adversely affected by contagion effects in the past, including following the 1998 Russian financial crisis, the 2008-2009 global financial crisis, and recent regional turbulence due to lower oil prices, and may be affected by similar events in the future.

Increased volatility in global financial markets and lower capital flows to emerging market economies world-wide, weakness of global trade, elevated geopolitical risks, highly volatile and large and sustained declines in commodity prices, wide-ranging spill overs from Russia's recession, and the slowdown and rebalancing of China's economy may have an adverse effect on Georgia's economy. Financial or political instability in emerging markets also tends to have a material adverse effect on capital markets and the wider economy as investors generally move their money to more developed markets, which they may consider to be more stable. These risks may be compounded by incomplete, unreliable, unavailable or untimely economic and statistical data on Georgia, which may include information in this document.

The Issuer is a reporting company in Georgia and is subject to additional regulations and reporting requirements

Following the public offering of the Senior Notes (as defined below) in Georgia in June 2019, the Issuer became a reporting company (the "**Reporting Company**") within the meaning of the Securities Market Law. The Securities Market Law sets certain approval and transparency requirements for transactions in

which the members of the managing bodies of a Reporting Company, and direct or indirect owners of 20% or more of its shares, are regarded as Interested Parties, as defined by law. According to the Securities Market Law, transactions involving Interested Parties and transactions with 10% or more of the value of the assets of the Reporting Company must be approved by the supervisory board or the general shareholders meeting of the Reporting Company. A transaction which exceeds 50% of the value of the assets of the Reporting Company must be approved by the general shareholders meeting. The general shareholders meeting shall also approve transactions with interested parties having a value of 10% or more of the assets of the Reporting Company. In addition, an external auditor/certified accountant shall confirm whether the transaction is being made on substantially the same terms as it would have been made between parties that are not Interested Parties. The above requirements do not apply to transactions made between the Reporting Company and its 100% owned subsidiary or with its 100% shareholder. In some cases, the absence of the relevant approval may lead to invalidation of the transaction, which could adversely affect the Issuer's operations.

Furthermore, the Securities Market Law imposes specific reporting obligations. In general, under the Securities Market Law, a Reporting Company is obliged to submit to the NBG and publish or provide to its registered securities owners annual, semi-annual and current reports. If the Notes are traded on the GSE, the Issuer must provide such reports to the GSE as well. However, if the Notes are placed/listed on Euronext Dublin, the Issuer may submit financial statements and other reports to the NBG in the same form and within the same time limits as required by Euronext Dublin. The NBG is entitled to request additional information from the Reporting Companies. In addition, members of the governing body of a Reporting Company are required to submit to the NBG and the relevant stock exchange a report on the percentage of the Issuer's securities of which they are registered and/or beneficial owners. A person or a group of persons must notify the NBG and the stock exchange where securities are traded of a substantial acquisition of securities (i.e. holding more than 10% of the voting rights or having ability to otherwise control the Reporting Company).

The requirement of approval of transactions with Interested Parties and reporting requirements are an additional burden for TBC and may affect the efficiency of its operations, which, in turn, could affect TBC's revenue.

Risks Relating to the Notes

Risks Relating to the Structure of the Notes

The obligations of the Issuer in respect of the Notes are direct, unsecured and subordinated and investors assume an enhanced risk of loss in the event of the insolvency of the Issuer

The Notes constitute direct, unsecured and subordinated obligations of the Issuer.

Upon the insolvency and/or liquidation of the Issuer (as determined in accordance with Applicable Banking Regulations), all claims in respect of the Notes (including claims for damages in respect of any breach of the Issuer's obligations thereunder, if applicable) will rank: (a) junior to (i) any present or future claims in respect of unsubordinated obligations of the Issuer, (ii) subordinated obligations of the Issuer qualifying as Tier 2 Instruments, (iii) any claims in respect of other contractually subordinated obligations of the Issuer not qualifying as Additional Tier 1 Instruments and which do not fall within Conditions 4(a) or 4(c), and (iv) any other subordinated obligations of the Issuer which by law and/or by their terms, to the extent permitted by Georgian law, rank senior to the Issuer's obligations under the Notes; and (b) *pari passu* and without any preference among themselves and with (i) any claims in respect of other contractually subordinated obligations of the Issuer qualifying as Additional Tier 1 Instruments and (ii) any other subordinated obligations of the Issuer which by law and/or by their terms, to the extent permitted by Georgian law, rank *pari passu* with the Issuer's obligations under the Notes.

If, upon the insolvency and/or liquidation of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the Noteholders will lose their entire investment in the Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Notes and all other claims that rank *pari passu* with the Notes, Noteholders will lose some (or substantially all) of their investment in the Notes.

Although the Notes may (subject always to the Issuer's right to cancel interest payments and to circumstances where the cancellation of interest payment is mandatory in accordance with the Conditions) pay a higher rate of interest than securities which are not, or not as deeply, subordinated, there is a substantial risk that investors in the Notes will lose all or some of the value of their investment should the Issuer become insolvent.

The Issuer is not prohibited from issuing additional debt, which may rank senior to, or pari passu with, the Notes

The Conditions do not limit the amount of liabilities ranking senior or *pari passu* in priority of payment to the Notes which may be incurred or assumed by the Issuer from time to time, whether before or after the issue date of the Notes, nor do they restrict the Issuer in issuing Additional Tier 1 Capital instruments with other write-down mechanisms or that convert into shares of the Issuer upon a trigger event. The Issuer may be able to incur significant additional secured or unsecured unsubordinated indebtedness and/or prior-ranking subordinated indebtedness.

Unsubordinated liabilities of the Issuer may also arise from events that are not reflected on the balance sheet of the Issuer, including, without limitation, insurance or reinsurance contracts, derivative contracts, the issuance of guarantees or the incurrence of other contingent liabilities on an unsubordinated basis. Claims made under such guarantees or such other contingent liabilities will become unsubordinated liabilities of the Issuer that upon the insolvency of the Issuer, which is at all times determined in accordance with Applicable Banking Regulations, will need to be paid in full before the obligations under the Notes may be satisfied.

As a result, the Notes are subordinated to any secured or unsecured unsubordinated indebtedness and/or prior-ranking subordinated indebtedness that the Issuer may incur in the future. Upon the insolvency of the Issuer, the Issuer may not have enough assets remaining after these payments to pay amounts due and payable under the Notes and Noteholders may therefore recover rateably less (if anything) than the lenders of the Issuer's secured or unsecured unsubordinated debt and/or prior-ranking subordinated debt. Even if the claims of senior ranking creditors would be satisfied in full, Noteholders may still not be able to recover the full amount due because the proceeds of the remaining assets must be shared *pro rata* among all other creditors holding claims ranking *pari passu* with the claims of the Noteholders in respect of the Notes.

If the Issuer's financial condition were to deteriorate, investors could suffer direct and materially adverse consequences, including suspension of interest and reduction of interest and principal and even loss of their entire investment.

Unless an Approval Event has occurred, or a Capital Event has occurred and is continuing, the Issuer, in its full discretion, may at any time elect, and in certain circumstances may be required, not to make payments of Interest on the Notes

The Issuer may elect, at any time, in its sole and absolute discretion, to cancel (in whole or in part) the payment of any Interest otherwise scheduled to be paid on an Interest Payment Date as further provided in Condition 5(c), provided that (i) if a Capital Event has occurred, the Issuer will not have the discretion to cancel any payments of Interest due on any Affected Notes on any Interest Payment Date for so long as such Capital Event is continuing; and/or (ii) if an Approval Event has occurred, the Issuer will not have the discretion to cancel the payment of any Interest due on the Notes on any Interest Payment Date.

The Issuer will cancel any Interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of Interest, when aggregated together with any other Relevant Distributions, exceeds the amount of Distributable Items of the Issuer as at such Interest Payment Date.

If the Issuer is required to cancel a relevant payment of Interest in whole or in part in accordance with Applicable Banking Regulations, the Issuer will only make partial or, as the case may be, no payment of the relevant Interest on the Notes.

Additionally, if the Competent Authority, in accordance with Applicable Banking Regulations, requires the Issuer to cancel a relevant payment of Interest in whole or in part, the Issuer will only make partial or, as the case may be, no payment of the relevant Interest on the Notes.

Furthermore, no payments of Interest will be made on the Notes if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

In addition, if a Write Down Event occurs at any time on or after the Closing Date, the Issuer will not make any further payments of Interest on the Notes until the Write Down Measure Effective Date and any accrued and unpaid Interest will be cancelled.

Payments of Interest on the Notes are non-cumulative. Accordingly, if any payment of Interest (or any part thereof) is not made in respect of the Notes as a result of any election of the Issuer to cancel such payment of Interest pursuant to Condition 5(c) or the limitations on payment set out in Condition 5(d) and Condition 6 (*Write Down*), then the right of the Noteholders to receive the relevant payment of Interest (or such part thereof) in respect of the relevant Interest Period will be extinguished and the Issuer will have no obligation to pay such Interest (or such part thereof) accrued for such Interest Period or to pay any interest thereon, whether or not Interest on the Notes is paid in respect of any future Interest Period.

If the Issuer elects to cancel, or is prohibited from paying, interest on the Notes at any time, the Issuer will be prohibited from making any distributions, or paying any dividends, in cash or in kind on any Ordinary Shares unless and until the interest due and payable on the Notes on any subsequent Interest Payment Date has been paid in full or no Notes remain outstanding; however, there is no restriction under the terms of the Notes on the Issuer from redeeming, repurchasing or otherwise acquiring any of the Ordinary Shares, or paying interest or making other distributions on, or redeeming or repurchasing, any of its other liabilities (including liabilities which rank *pari passu* with, or junior to, the Notes). The obligations of the Issuer under the Notes are senior in ranking to the Ordinary Shares of the Issuer. It is the Issuer's current intention that, whenever exercising its discretion to propose any dividend or distributions in respect of its Ordinary Shares, or its discretion to cancel any payment of interest, it will take into account the relative ranking of these instruments in its capital structure. However, the Issuer may at any time decide otherwise at its sole discretion and without notice to any person (including the Noteholders).

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions of the Notes, in particular Condition 5 (*Interest*), the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication or perceived indication that the Distributable Items are close to being exceeded, whether as a consequence of a forthcoming interest payment or otherwise, and/or that the CET1 ratio of the Issuer (on a standalone basis) is trending towards a failure to meet fully legal and regulatory requirements, may have an adverse effect on the market price of the Notes.

The level of the Issuer's Distributable Items is affected by a number of factors and insufficient Distributable Items will restrict the ability of the Issuer to make interest payments on the Notes.

The Issuer will cancel any payment of interest (in whole or in part) which could otherwise be paid on an Interest Payment Date if and to the extent that payment of such interest would, when aggregated together with any other Relevant Distributions, exceed the Distributable Items of the Issuer. The Distributable Items of the Issuer are calculated as the excess of profits and reserves above the minimum regulatory capital adequacy requirements as applicable from time to time, calculated on a standalone basis in accordance with the local accounting standards (see "*—Risks Relating to the Issuer and the Group—TBC is subject to certain regulatory ratios*"). As of 31 March 2019, 31 December 2018 and 31 December 2017, such Distributable Items totaled GEL 232.5 million, GEL 127.5 million and GEL 326.9 million, respectively. If the Notes had been issued as of 31 March 2019, Distributable Items as of 31 March 2019 would have been GEL 452.5 million (based on a USD/GEL exchange rate of U.S.$1.00 = GEL 2.6914, the official exchange rate reported by the NBG on 31 March 2019).

Distributable Items are the Issuer's profits and distributable reserves (if any) that are available in accordance with Applicable Banking Regulations for the payment of Interest as further described in the Conditions. The level of the Issuer's Distributable Items is affected by a number of factors. The Issuer's future Distributable Items, and therefore the ability of the Issuer to make interest payments under the Notes, are a function of the Issuer's existing Distributable Items and its future profitability. The Issuer's Distributable Items may be adversely affected, *inter alia*, by the servicing of more senior instruments or parity ranking instruments, including by other discretionary interest payments on other (existing or future) capital instruments.

The level of the Issuer's Distributable Items may also be affected by changes to the law, accounting rules, Applicable Banking Regulations or other regulation, or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Issuer's Distributable Items in the future.

The Issuer's Distributable Items, and therefore the Issuer's ability to make interest payments under the Notes, may be adversely affected by the performance of the business of the Issuer and the Group in

general, factors affecting its financial position (including capital and leverage), the economic environment in which the Issuer and the Group operate and other factors outside of the Issuer's control. In addition, earnings may fluctuate significantly and may materially adversely affect the level of Distributable Items.

Any actual or anticipated cancellation of interest on the Notes will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest cancellation provisions in Condition 5 (*Interest*), the market price of the Notes may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition. Any indication or perceived indication that there are insufficient Distributable Items may have an adverse effect on the market price of the Notes.

The Notes may be traded with accrued interest, but (i) under certain circumstances described above, such interest will be cancelled and not paid on the relevant Interest Payment Date and (ii) the Issuer retains full discretion to cancel interest otherwise scheduled to be paid on the relevant Interest Payment Date

The Notes may trade, and/or the prices for the Notes may appear, in any trading systems and/or on any stock exchange on which the Notes are for the time being listed, with accrued interest. If this occurs, purchasers of Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Notes. However, if a payment of interest on any Interest Payment Date is cancelled (in whole or in part) as described herein and is thus not due and payable, purchasers of such Notes will not be entitled to that interest payment (or, if the Issuer elects to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date.

Upon the occurrence of a Write Down Event, the principal amount of the Notes will be Written Down

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Issuer. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions.

A Write Down Event will occur upon the occurrence of any Trigger Event or Viability Event. Pursuant to the Conditions, a Trigger Event will occur if, at any time, as determined by the Issuer, the Competent Authority or an agent appointed by the Competent Authority, the CET1 ratio of the Issuer (on a standalone basis) is less than 5.125%. A Viability Event is a circumstance and/or event, when in accordance with Applicable Banking Regulations and/or in the determination of the Competent Authority (i) a Write Down of the Notes and a write down of any Write Down Instruments, without which the Issuer would become non-viable, is necessary; and/or (ii) a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable, is necessary; and/or (iii) any other event or circumstance has occurred which is specified as constituting the non-viability of the Issuer by the Competent Authority or in Applicable Banking Regulations.

In the event of a Write Down Event has occurred and is continuing on the date on which the Write Down measures become effective (which shall occur on or prior to the date falling 30 Business Days after the occurrence of the Write Down Event) (the "**Write Down Measure Effective Date**"), on the Write Down Measure Effective Date:

(i) any applicable Monetary Damages for which the Issuer may be liable under the Notes will be cancelled in full;

(ii) any applicable accrued and unpaid Interest will be cancelled in full; and

(iii) the Outstanding Principal Amount will be Written Down in full,

provided that, the Competent Authority, in its sole discretion, and in accordance with Applicable Banking Regulations, may determine that any such Monetary Damages, accrued and unpaid Interest and/or Outstanding Principal Amount need only be Cancelled or Written Down (as the case may be) in part only (and not in full) in order to remedy the relevant Write Down Event, provided further that, (i) the Outstanding Principal Amount may only be used to remedy a Write Down Event *pro rata* with the Write Down Instruments, and (ii) Monetary Damages and accrued Interest may only be Cancelled by the Issuer *pro rata* with Monetary Damages and accrued Interest on the Write Down Instruments, *provided further that* the effectiveness of a Write Down or Cancellation under a Write Down Instrument shall not prejudice any Write Down of the Notes or any Cancellation of Monetary Damages or accrued Interest under the Notes.

Noteholders may lose all or some of their investment as a result of such a Write Down and, in the event that any Write Down or Cancellation under any Write Down Instrument is ineffective, Noteholders may suffer greater loss than the holders of other securities and/or instruments issued by the Issuer, including those which rank *pari passu* with the Notes.

No Interest will accrue or be paid if and for so long as a Write Down Event has occurred and is continuing. Any Monetary Damages and/or accrued Interest that has been Cancelled by the Issuer in accordance with Condition 6 (*Write Down*) will not accumulate or be payable at any time thereafter, including where the relevant Write Down Event is no longer continuing.

Once the Outstanding Principal Amount has been Written Down in accordance with Condition 6 (*Write Down*), the principal amount so Written Down may not be restored under any circumstances, including where the relevant Write Down Event is no longer continuing. If the Outstanding Principal Amount is Written Down to zero, the Conditions will cease to have effect.

A Write Down Event may occur on more than one occasion (and Monetary Damages and accrued Interest may be Cancelled and the Notes may be Written Down in accordance with Condition 6 (*Write Down*) on more than one occasion).

Upon the occurrence of a Write Down Event and on the Write Down Measure Effective Date, Noteholders will not (i) receive any shares or other participation rights in the Issuer or be entitled to any other participation in any equity or debt securities issued by the Issuer; or (ii) be entitled to any compensation in the event of any further change in (A) the CET1 ratio (as defined in the Conditions), (B) the Issuer's solvency, ability to meet its payment obligations as they fall due or to carry on its business, or (C) in the opinion of the Competent Authority and/or in accordance with Applicable Banking Regulations (each, as defined in the Conditions), the Issuer's viability, and a write down of a principal amount of the Notes may occur even if existing preference shares and ordinary shares of the Issuer remain outstanding.

Any Write Down of the Notes will affect the claims of Noteholders in various respects. Firstly, in the event of a winding-up of the Issuer, the claims of Noteholders will be in respect of the Outstanding Principal Amount at the time of the winding-up of the Issuer, and not for the original principal amount. Similarly, upon a redemption of the Notes by the Issuer, the redemption amount of each Note will be its Outstanding Principal Amount (together with accrued and unpaid interest, which has not been cancelled pursuant to Condition 5 (*Interest*)) and not its original principal amount. Moreover, the Issuer is not permitted to redeem the Notes pursuant to Condition 7 (*Optional Redemption*), if a Write Down Event has occurred and is continuing. See also "*—There is no scheduled redemption date for the Notes and Noteholders have no right to require redemption and the Issuer may redeem the Notes in certain circumstances*" below for information regarding the Issuer's right to redeem the Notes.

Secondly, Interest will accrue only on the Outstanding Principal Amount from time to time and, accordingly, for so long as the Outstanding Principal Amount is less than the original principal amount of the Notes, the maximum amount of interest which may be paid by the Issuer (subject always to applicable payment restrictions and interest cancellation as described above) on any Interest Payment Date shall be less than if no Write Down had occurred.

In addition, as a Write Down Event will occur upon the occurrence of a Trigger Event, which is linked to the CET1 ratio of the Issuer (on a standalone basis), any actual or perceived reduction in the CET1 ratio may therefore have an adverse effect on the market price of the Notes, and such adverse effect may be particularly significant if there is any indication or expectation that the CET1 ratio is or may be trending towards 5.125%.

The Issuer's CET1 ratio as at 31 March 2019, 31 December 2018 and 31 December 2017 was 13.38 per cent, 12.39 per cent and 12.90 per cent, respectively, which was above the minimum regulatory requirement of 9.82 per cent, 9.71 per cent and 8.36 per cent for the same periods, respectively.

The Issuer's CET1 Capital was GEL 1,698 million, GEL 1,630 million and GEL 1,388 million as of 31 March 2019, 31 December 2018 and 2017. The Issuer's Tier 1 Capital was GEL 1,747 million, GEL 1,679 million and GEL 1,437 million as of 31 March 2019, 31 December 2018 and 2017, respectively. The Issuer's Total Regulatory Capital was GEL 2,421 million, GEL 2,351 million and GEL 1,885 million as of 31 March 2019, 31 December 2018 and 2017, respectively. The Issuer's RWAs were GEL 12,690 million, GEL 13,155 million and GEL 10,753 million as of 31 March 2019, 31 December 2018 and 2017, respectively. As at 31 March 2019, the Issuer's distance to the Trigger Event was GEL 1,048 million.

See "*Selected Consolidated Financial and Operating Information*" for information regarding the current regulatory capital ratio of the Issuer. The Issuer currently intends to publish information regarding the regulatory capital ratio of the Issuer as part of its financial statements annually. However, there can be no assurance that the Issuer will publicly report such information at such intervals or at any other time.

Further, as a Write Down Event will occur upon the occurrence of a Viability Event, which is linked to the financial viability and solvency of the Issuer, any indication or perceived indication that the Issuer may require a public sector injection of capital (or equivalent support), or may be, or may become, insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business, or otherwise Non-Viable (as defined in the Conditions), may therefore have a material adverse effect on the market price of the Notes.

The market price of the Notes is expected to be affected by any actual or anticipated Write-Down of the principal amount of the Notes.

The circumstances surrounding or triggering a Write Down Event are unpredictable

The occurrence of a Write Down Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control.

The occurrence of a Trigger Event, and a Write Down Event resulting therefrom, depends, in part, on the calculation of the CET1 ratio of the Issuer (on a standalone basis), which can be affected, among other things, by the growth of the Issuer's business and its future earnings, regulatory changes (including possible changes in regulatory capital definitions and calculations), the Issuer's ability to mitigate risk weighted assets and the Issuer's decisions on management of its capital position. The calculation may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments modifying the regulatory capital impact of accounting rules. Furthermore, regulatory changes that may occur which affect the basis of the Issuer's (or, as the case may be, the Competent Authority's, or any agent's appointed by the Competent Authority) calculation of the CET1 ratio of the Issuer (on a standalone basis) subsequent to the date of this Prospectus may individually or in the aggregate negatively affect the CET1 ratio of the Issuer (on a standalone basis) and thus increase the risk of the occurrence of a Write Down Event.

The occurrence of a Viability Event, and a Write Down Event resulting therefrom, is inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control. The occurrence of a Viability Event is subject to, *inter alia*, a determination by the Competent Authority. As a result, the Competent Authority may take actions contributing to the occurrence of a Write Down Event in circumstances that are beyond the control of the Issuer and with which the Issuer may not agree. The exercise (or perceived likelihood of exercise) of any such power by the Competent Authority or any suggestion of such exercise could materially adversely affect the value of the Notes and could lead to the Noteholders losing some or all of their investment in the Notes.

Because of the inherent uncertainty regarding the determination as to whether a Trigger Event or a Viability Event has occurred, it will be difficult to predict when, if at all, a Write Down Event will occur. Accordingly, trading behaviour in respect of the Notes is not necessarily expected to follow trading behaviour associated with other types of securities. Any indication that the Issuer is trending towards a Write Down Event can be expected to have a material adverse effect on the market price of the Notes.

The interest rate on the Notes will be reset on each Reset Date, which may affect the market value of the Notes

The interest rate on the Notes will be reset on the First Reset Date and each subsequent Reset Date, which could affect interest payments on an investment in the Notes and the market price of any such investment. The Notes will initially bear interest at the rate of Interest equal to 10.775% per annum to (but excluding) the First Reset Date, at which time the rate of Interest will be reset as specified in the Conditions. Such reset rate of Interest will then be reset at each subsequent Reset Date in accordance with Condition 5 (*Interest*). Each reset rate of Interest could be less than the initial rate of Interest and thus could affect the market value of an investment in the Notes.

The Notes do not contain events of default and the enforcement rights available to Noteholders under the Notes are limited

The terms of the Notes do not provide for any events of default or any other provisions allowing Noteholders to accelerate the Notes. Noteholders may not at any time demand repayment or redemption of their Notes, and enforcement rights for any payment are limited to the claim of Noteholders in a

winding-up of the Issuer. In a winding-up of the Issuer, the Noteholder of any Note may prove or claim in such proceedings in respect of such Note, such claim being for payment of the outstanding principal amount of such Note at the time of commencement of such winding-up together with any interest accrued and unpaid on such Note (to the extent that the same is not cancelled in accordance with the terms of the Notes) from (and including) the Interest Payment Date immediately preceding commencement of such winding-up and any other amounts payable on such Note under the Conditions. In accordance with the Conditions, a Noteholder may not itself file for the winding-up or bankruptcy of the Issuer.

There is no scheduled redemption date for the Notes and Noteholders have no right to require redemption and the Issuer may redeem the Notes in certain circumstances

The Notes are perpetual and have no fixed maturity. The Issuer has no obligation at any time to redeem the Notes, and the Noteholders have no right to require redemption or purchase of the Notes by the Issuer at any time.

The Issuer may redeem the Notes (in whole but not in part) in its sole discretion, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), on any Interest Payment Date falling on or after the First Reset Date at the Redemption Price, which may be lower than the original principal amount if the Notes have previously been the subject of a Write Down.

Further, on or after the Closing Date, following the occurrence of a Tax Event that is continuing, the Issuer may redeem the Notes (in whole but not in part) in its sole discretion (subject to the prior consent of the Competent Authority, if required, and otherwise in accordance with Applicable Banking Regulations then in force), at any time at the Redemption Price, which may be lower than the original principal amount if the Notes have previously been the subject of a Write Down.

In addition, following the occurrence of a Capital Event that is continuing, the Issuer may redeem the Notes (in whole but not in part) in its sole discretion (subject to the prior consent of the Competent Authority, if required, and otherwise in accordance with Applicable Banking Regulations then in force), at any time at the Redemption Price, which may be lower than the original principal amount if the Notes have previously been the subject of a Write Down.

A Tax Event will occur if any Law Change (as defined in the Conditions) occurs, and in any such case, whereby the Issuer determines that it (i) would not be entitled to claim a deduction in computing taxation liabilities in a Tax Jurisdiction (as defined in the Conditions) in respect of any Interest payment to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be reduced; and/or (ii) would be required to pay Additional Amounts (as defined in the Conditions) on the next Interest Payment Date pursuant to Condition 11 (*Taxation*) and, in each case, this cannot be avoided by the Issuer taking reasonable measures available to it.

A Capital Event will occur if, at any time after the Approval Date, a change in the regulatory classification of the Notes under Georgian law or Applicable Banking Regulations occurs, or the Competent Authority makes a decision, that results (or would result) in any or all of the outstanding Notes that were included in, or counted towards, the Issuer's Tier 1 Capital (on a standalone basis) on the Approval Date ceasing to be included in, or counting towards the Issuer's Tier 1 Capital (on a standalone basis), provided that a Capital Event shall not be deemed to have occurred solely as a consequence of any actual or potential Write Down of any Notes.

In addition, there is no guarantee that the Final Conclusion (as defined in the Conditions) will be obtained, which will constitute an Approval Event. Should an Approval Event occur, the Issuer will have a right to redeem the Notes (in whole but not in part) in its sole discretion, within 30 days of the Approval Date, at the Redemption Price.

At any time when the Notes may be redeemed by the Issuer or the market anticipates that the redemption right will become available, the market price of the Notes is unlikely to substantially exceed the price at which the Issuer may elect to redeem the Notes. If the Issuer redeems the Notes in any of the circumstances mentioned above, there is a risk that the Notes may be redeemed at times when the redemption proceeds are less than the current market value of the Notes or when prevailing interest rates may be relatively low, in which latter case Noteholders may only be able to reinvest the redemption proceeds in Notes with a lower yield. Potential investors should consider reinvestment risk in light of other investments available at that time.

It is not possible to predict whether the events referred to above will occur and lead to circumstances in which the Issuer may elect to redeem the Notes, and if so whether or not the Issuer will satisfy the conditions, or elect, to redeem the Notes. The Issuer may be more likely to exercise its option to redeem the Notes at a time when its funding costs would be lower than the prevailing interest rate payable in respect of the Notes. If the Notes are so redeemed, there can be no assurance that Noteholders will be able to reinvest the amounts received upon any redemption at a rate that will provide as favourable a rate of return as their investment in the Notes.

The Notes are subject to modification, substitution and variation

The Trust Deed contains provisions for calling meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Conditions) of a modification or abrogation of any of the Conditions or any provisions of the Trust Deed, other than any modification or abrogation which could reasonably be expected to result in a Capital Event or a Tax Event. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting, including Noteholders who voted in a manner contrary to the majority.

In addition, the Trustee and the Issuer may agree, without the consent of the Noteholders, to (i) any modification of any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or may determine, without any such consent, that any default shall not be treated as such, if it is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation, waiver or determination will be binding on the Noteholders.

Furthermore, the Trust Deed also contains provisions permitting the Trustee to agree with the Issuer, subject to the conditions provided for in the Trust Deed, but without the consent of the Noteholders, to the substitution of any Subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution, the Trustee may agree with the Issuer, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed, if such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders.

If a Capital Event or a Tax Event has occurred and is continuing as at the date of the relevant variation notice to Noteholders, then the Issuer may, in its sole discretion but subject as provided in Condition 7(l), and without any requirement for the consent or approval of the Noteholders, but subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), either substitute all (but not some only) of the Notes for, or vary the terms of the Notes (including changing the governing law of the Notes) so that the Notes remain or, as the case may be, become Additional Tier 1 Capital, so that the Notes remain or, as appropriate, become, Qualifying Additional Tier 1 Notes (as defined in the Conditions).

In addition, pursuant to Condition 5(b), if a Benchmark Event occurs, certain changes may be made to the interest calculation and related provisions of the Notes for any Interest payments commencing on or after the First Reset Date, without the consent or approval of the Noteholders.

Notwithstanding any provision of the Conditions, no assurance can be given as to whether any of these changes will negatively affect any particular Noteholder and it is possible that any substituted or varied Notes will contain conditions that are contrary to the investment criteria of certain investors. In addition, the tax and stamp duty consequences of holding such substituted or varied Notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the Notes prior to such substitution or variation. There can also be no assurance that the terms of any substituted or varied Notes will be viewed by the market as equally favourable to Noteholders, or that such Notes will trade at prices that are equal to the prices at which the Notes would have traded on the basis of their original terms.

Future discontinuance of LIBOR or the occurrence of a Benchmark Event may adversely affect the value of the Notes

On 27 July 2017, the Chief Executive of the FCA, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. On 12 July 2018, the FCA further announced that the LIBOR benchmark may cease to be a regulated benchmark under Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on the Notes for periods from (and including) the First Reset Date may be determined by the fall-back provisions applicable to the Notes as set out in Condition 5 (*Interest*). This may, in certain circumstances, result in the effective application of a fixed rate based on the rate which was last observed on the relevant Screen Page (as defined in the Conditions).

In addition, any changes to the administration of the 5-Year Mid-Swap Rate (or changes to its component parts, including to LIBOR or the manner in which it is calculated) or the emergence of alternatives to the 5-Year Mid-Swap Rate as a result of these potential reforms, may cause the 5-Year Mid-Swap Rate to perform differently from in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of the 5-Year Mid-Swap Rate or changes to its administration could require changes to the way in which the rate of interest is calculated on the Notes from (and including) the First Reset Date. Uncertainty as to the nature of alternative reference rates and as to potential changes to the 5-Year Mid-Swap Rate may adversely affect the 5-Year Mid-Swap Rate, the return on the Notes and the trading market for securities based on the 5-Year Mid-Swap Rate. The development of alternatives to the 5-Year Mid-Swap Rate may result in the Notes performing differently than would otherwise have been the case if such alternatives to the 5-Year Mid-Swap Rate had not developed. Any such consequence could have a material adverse effect on the value of, and return on, the Notes and may, in certain circumstances, result in the effective application of a fixed rate.

The Conditions also provide for certain fall-back arrangements in the event that a Benchmark Event occurs. Either (i) the Issuer will appoint an Independent Adviser to determine (A) a Successor Rate or, failing which, an Alternative Reference Rate (each, as defined in the Conditions), for the purposes of determining the rate of interest (or the relevant component part thereof) applicable to the Notes, and (B) in either case, an Adjustment Spread; or (ii) if the Issuer is unable to appoint an Independent Adviser or the Independent Adviser appointed is unable to determine the relevant rates prior to the IA Determination Cut-Off Date (as defined in the Conditions), the Issuer (acting in good faith and in a commercially reasonable manner and following consultation with the Independent Adviser (if any)) may determine (A) a Successor Rate or, failing which, an Alternative Reference Rate, and (B) in either case, an Adjustment Spread. The use of any such Successor Rate, Alternative Reference Rate or Adjustment Spread to determine the rate of interest may result in the Notes performing differently (including paying a lower Interest for any Interest Period after the First Reset Date) than they would do if the 5-Year Mid-Swap Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate, Alternative Reference Rate or Adjustment Spread is determined by the Issuer, the Conditions provide that the Issuer may specify changes to the Conditions to ensure the proper operation of such Successor Rate, Alternative Reference Rate or Adjustment Spread. Subject to Condition 5(b)(vi), if the Issuer certifies to the Trustee that (i) consequential amendments to the Conditions are required pursuant to Condition 5(b)(v); (ii) the Issuer has determined that such consequential amendments are in compliance with Applicable Banking Regulations, and (iii) such consequential amendments have been approved by the Competent Authority in accordance with Condition 15(e), then the Trustee will (at the expense of the Issuer and without any consent being required from the Noteholders) concur with the Issuer in making any such amendments and modifications to the Conditions and the Trust Deed. Such amendments and modifications to the Conditions may result in the rights of the Noteholders being prejudiced.

If the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread will be applied to the Successor Rate or the Alternative Reference Rate (as applicable). The aim of the Adjustment Spread is to reduce or eliminate, so far as is reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the

replacement of the 5-Year Mid-Swap Rate with the Successor Rate or the Alternative Reference Rate. However, there is no guarantee that such an Adjustment Spread will be applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to Noteholders. If the Independent Financial Adviser or, as the case may be, the Issuer is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, a Successor Rate or Alternative Reference Rate will nonetheless be applied to determine the rate of interest without any Adjustment Spread. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, the Notes.

However, no Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) will be adopted, and no other amendments to the Conditions will be made pursuant to the Conditions, if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to give rise to a Capital Event. Such a determination may result in the Notes performing differently than would otherwise have been the case prior to the Benchmark Event and may, in certain circumstances, result in the effective application of a fixed rate.

Moreover, any of the above matters or any other significant change to the setting or existence of the 5-Year Mid-Swap Rate could adversely affect the ability of the Issuer to meet its obligations under the Notes and could have a material adverse effect on the value or liquidity of, and the amount payable under, the Notes.

The Notes are complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors

The Notes are complex financial instruments that involve a high degree of risk. As a result, an investment in the Notes will involve certain increased risks. Each potential investor in the Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where such potential investor's financial activities are principally denominated in a currency other than US Dollars, and the possibility that substantially the entire principal amount of the Notes could be lost in the event of a Write Down or other write down of the Notes;
- understand thoroughly the terms of the Notes (including, in particular, calculation of the CET1 ratio, as well as under what circumstances a Write Down Event will occur and the provisions relating to the payment and cancellation of interest); and
- be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. Potential investors should not invest in the Notes unless they have the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the likelihood of a Cancellation of Interest and/or Write Down and the value of the Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures

The Regulation S Notes will be represented on issue by a Regulation S Global Certificate that will be deposited with a nominee for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Regulation S Global Certificate, investors will not be entitled to receive Notes in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Regulation S Global Certificate. While the Notes are represented by the Regulation S Global Certificate,

investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes will be represented on issue by a Rule 144A Global Certificate that will be deposited with a nominee for DTC. Except in the circumstances described in the Rule 144A Global Certificate, investors will not be entitled to receive Notes in definitive form. DTC and its direct and indirect participants will maintain records of the beneficial interests in the Rule 144A Global Certificate. While the Notes are represented by the Rule 144A Global Certificate, investors will be able to trade their beneficial interests only through DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

While the Notes are represented by the Global Certificates, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Denominations involve integral multiples

As the Notes will have denominations of US$ 200,000 and integral multiples of US$ 1,000 in excess thereof, it is possible that the Notes may be traded in amounts in excess of US$ 200,000 (or its equivalent) that are not integral multiples of US$ 200,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination will not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be issued) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more minimum denominations.

Risks Relating to Tax and Legal Regimes

If the Issuer were classified as a passive foreign investment company for U.S. federal income tax purposes, U.S. holders could be subject to adverse U.S. federal income tax consequences

A non-U.S. corporation will be a passive foreign investment company (a "**PFIC**") for any taxable year if either: (a) at least 75% of its gross income is "passive income" for purposes of the PFIC rules or (b) at least 50% of the value of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income; however, under proposed U.S. Treasury regulations and a notice from the U.S. Internal Revenue Service (the "**IRS**"), special rules apply to income derived in the active conduct of a banking, financing or similar business. Based on the current and anticipated composition of the income, assets and operations of the Issuer, the Issuer does not believe it was a PFIC for U.S. federal income tax purposes for its most recent taxable year and does not expect to be a PFIC for the current taxable year or in the foreseeable future. This is a factual determination, however, that depends on, among other things, the composition of the income and assets, and the market value of the shares and assets, of the Issuer and any subsidiaries from time to time, and thus the determination can only be made annually after the close of each taxable year. In addition, the application of the special rules to income derived in the active conduct of a banking, financing or similar business is not entirely clear, and the proposed U.S. Treasury regulations may not be finalised in their current form. Therefore, there can be no assurance that the Issuer will not be a PFIC for the current taxable year or for any future taxable year. If the Issuer were to be a PFIC for any taxable year during which a U.S. holder held a Note, certain adverse U.S. federal income tax consequences could apply to such U.S. holder. See "*Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company Considerations*".

Noteholders may be subject to withholding tax under FATCA

Under sections 1471-1474 of the United States Internal Revenue Code of 1986 enacted by the United States as part of the HIRE Act in March 2010 (commonly referred to as Foreign Account Tax Compliance

Act, as amended ("**FATCA**"), payments may be subject to withholding if the payment is either US source, or a foreign "pass thru" payment.

Regulations defining "foreign passthru payments" have not yet been adopted or proposed and the IRS has indicated in proposed regulations that any such regulations would not be effective for payments made prior to two years after the date on which final regulations on this issue are published. It is unclear to what extent (if any) payments on securities such as the Notes would be considered "foreign passthru payments" or to what extent (if any) passthru payment withholding may be required under intergovernmental agreements.

If an amount in respect of FATCA withholding tax were to be deducted or withheld from any payments on the Notes, neither the Issuer nor any paying agent would be required to pay any additional amounts as a result of the deduction or withholding of such tax. As a result, investors who are non-US financial institutions ("**FFI**") that have not entered into an FFI agreement (or otherwise established an exemption from withholding under FATCA), investors that hold Notes through such FFIs or investors that are not FFIs but have failed to provide required information or waivers to an FFI may be subject to withholding tax for which no additional amount will be paid by the Issuer. Noteholders should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

The U.S. federal income tax treatment of a write-down of the Notes is uncertain

No statutory, judicial or administrative authority directly addresses the U.S. federal income tax treatment of a write-down of the Notes. Among other matters, there is no authority addressing whether U.S. holders would be entitled to a deduction for loss at the time of a write-down. U.S. holders may, for example, be required to wait to take a deduction until there is an actual or deemed sale, exchange or other taxable disposition of the Notes. See "*U.S. Federal Income Tax Considerations Relating to the Notes—U.S. Holders—Write-Down of the Note*s". Investors are urged to consult their tax advisers to determine the U.S. federal income tax consequences of a write-down of the Notes.

Transactions in the Notes could be subject to a future European financial transaction tax

The European Commission has published a proposal for a Directive (the "**Commission Proposal**") for a common financial transaction tax (the "**FTT**") in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain (the "**participating Member States**"). Estonia has since stated that it will not participate.

The proposed FTT has a particularly broad scope and could, if introduced in the form of the Commission Proposal, apply to certain transactions relating to the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain transactions relating to the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument which is the subject of the transaction is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation among the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional member states may decide to participate or participating Member States may decide to withdraw.

Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

The value of the Notes could be adversely affected by a change in law or administrative practice

Changes in law after the date hereof may affect the rights of Noteholders as well as the market value of the Notes. The Conditions and any non-contractual obligations arising out of or in connection with the Notes are governed by, and will be construed in accordance with, the laws of England and Wales, except that the provisions of Conditions 3 (*Status*) and 4 (*Subordination of the Notes*) relating to the status and subordination of the Notes will be governed by, and construed in accordance with, Georgian law, in each case in effect as of the date of this Prospectus. No assurance can be given as to the impact of any possible

judicial decision or change to such law or administrative practice after the date of this Prospectus. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which could materially adversely impact the value of the Notes. Such legislative and regulatory uncertainty could also affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes given the extent and impact on the Notes that one or more legislative or regulatory changes, including those described above, could have on the Notes.

The acquisition of the Notes by certain prospective investors may not be legal

Neither the Issuer nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it. Prospective investors will be required to give the representations, warranties, agreements and undertakings as set out on the front pages of this Prospectus.

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes represent a new instrument for which no secondary trading market currently exists and there can be no assurance that one will develop. If a market for the Notes does develop, it may not be very liquid and such liquidity may be sensitive to changes in financial markets. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and existing liquidity arrangements (if any) might not protect Noteholders from having to sell the Notes at substantial discount to their principal amount in case of financial distress of the Issuer. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

If a market for the Notes does develop, the trading price of the Notes may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Notes. Publicly traded Notes from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. If any market in the Notes does develop, it may become severely restricted, or may disappear, if the financial condition and/or the CET1 ratio of the Issuer (on a standalone basis) deteriorates such that there is an actual or perceived increased likelihood of the Issuer being unable or unwilling to pay interest on the Notes in full, or of the Notes being Written Down or otherwise subject to loss absorption or an applicable statutory loss absorption regime. In addition, the market price of the Notes may fluctuate significantly in response to a number of factors, some of which are beyond the Issuer's control, including:

- variations in operating results of the Issuer;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Issuer's strategy is or may be less effective than previously assumed or that the Issuer is not effectively implementing any significant projects;
- changes in financial estimates by market analysts;
- changes in market valuations of similar entities;
- announcements by the Issuer of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;

- regulatory matters, including changes in Applicable Banking Regulations or Competent Authority requirements;
- additions or departures of key personnel; and
- future issues or sales of notes or other securities.

Any or all of these events could result in material fluctuations in the price of Notes which could lead to investors losing some or all of their investment.

The issue price of the Notes might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Notes at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

Moreover, the Issuer and its Subsidiaries may purchase or otherwise acquire outstanding Notes if such purchase or acquisition is permitted by Applicable Banking Regulations then in force. The Issuer's Parent Entity (as defined in the Conditions) may purchase or otherwise acquire outstanding Notes only subject to the prior consent of the Competent Authority. No purchase by any other related party to the Issuer should be directly or indirectly financed by the Issuer. Purchases made by the Issuer, its Subsidiaries or the Issuer's parent entity could affect the liquidity of the secondary market of the Notes and thus the price and the conditions under which investors can negotiate these Notes on the secondary market.

In addition, prospective investors should be aware that any deterioration of global credit market conditions such that there is a general lack of liquidity in the secondary market may result in investors suffering losses on the Notes in secondary re-sales even if there is no decline in the performance of the Notes or the financial condition of the Issuer or the Group.

Although application has been made for the Notes to be admitted to the Official List and trading on the Regulated Market of Euronext Dublin, there is no assurance that such application will be accepted or that an active trading market will develop.

The Notes may be delisted in the future

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the Regulated Market of Euronext Dublin. The Notes may subsequently be delisted despite the Issuer's best efforts to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes on the secondary market.

The value of the Notes may be adversely affected by movements in market interest rates

Investment in the Notes, which bear a fixed rate of interest (which will be reset on each Reset Date), involves the risk that if market interest rates subsequently increase above the relevant rate paid on the Notes, this will adversely affect the value of the Notes.

In addition, a Noteholder is exposed to the risk of fluctuating interest rate levels and uncertain interest income.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit Ratings of the Notes may not reflect all risk

The Notes are expected to be assigned a credit rating of "B-" by Fitch and may in the future be rated by additional independent credit rating agencies (including on an unsolicited basis, which may be equal to, or better or worse than, any ratings assigned on a solicited basis), although the Issuer is under no obligation to ensure that the Notes are rated by any credit rating agency. Prospective investors in the Notes should verify at all times the credit ratings of the Issuer and the Notes. Credit ratings may not reflect the potential

impact of all risks related to structure, market, additional factors discussed in these Risk Factors and other factors that may affect the liquidity or market value of the Notes. In addition, rating agency methodologies, and therefore ratings themselves, may change without warning at any time. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the credit rating agency at any time.

If one or more credit ratings are not assigned to the Notes, if the Issuer determines to no longer maintain one or more credit ratings, if any other independent credit rating agency decides to assign a rating to the Notes, or if any credit rating agency withdraws, suspends or downgrades any credit ratings of the Issuer or the Notes, or if such a withdrawal, suspension or downgrade is anticipated (or any credit rating agency places the credit ratings of the Issuer or the Notes on "credit watch" status in contemplation of a downgrade, suspension or withdrawal), such event could adversely affect the liquidity or market value of the Notes.

USE OF PROCEEDS

The net proceeds received by the Issuer from the issuance of the Notes (after deducting expenses, management, underwriting, selling and any additional fees and commissions) will be for general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The following table sets out TBC's capitalisation and indebtedness as at 31 March 2019. Prospective investors should read this financial information in conjunction with the information contained in "*Risk Factors*", "*Selected Consolidated Financial and Operating Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Selected Statistical and Other Information*" and "*Business Description*", as well as the Audited Consolidated Financial Statements, the Unaudited Consolidated Interim Financial Statements and all other financial data appearing elsewhere in this Prospectus.

	As of 31 March 2019
	(unaudited) **(GEL thousands)**
Indebtedness[(1)]	
Due to credit institutions[(2)]	
Of which:	
Guaranteed	—
Secured[(3)]	567,000
Unguaranteed/unsecured[(4)]	1,804,803
Total due to credit institutions	**2,371,803**
Debt securities in issue	
Of which:	
Guaranteed	—
Secured	—
Unguaranteed/unsecured[(4)]	13,415[(5)]
Total debt securities in issue	**13,415**
Subordinated Debt	
Of which	
Guaranteed	—
Secured	—
Unguaranteed/unsecured[(4)]	664,330
Total subordinated debt	**664,330**
Total indebtedness	**3,049,548**
Capitalisation[(6)]	
Share capital	21,014
Share premium	521,190
Retained earnings	1,676,122
Share based payment reserve	(59,932)
Revaluation reserve for premises	56,608
Fair value reserve	9,800
Cumulative currency translation reserve	(7,291)
Total Capitalisation	**2,217,511**

Notes:

(1) The statement of indebtedness does not classify customer accounts, correspondent accounts and overnight placements, deposits and short-term loans from banks as indebtedness as the taking of deposits is part of the core business of TBC.

(2) The amounts due to credit institutions exclude the amounts due to other banks, which comprise correspondent accounts and overnight placements, deposits and short-term loans from banks.

(3) TBC's secured debt due to credit institutions represents mainly the funding received from the local banks, including the NBG, and the borrowings from IFIs. These are secured with available for sale debt securities and loan portfolio of TBC.

(4) TBC's unguaranteed/unsecured debt includes borrowings and subordinated debt from foreign banks and IFIs and debt securities in issue.

(5) In addition to the amounts listed above, on 19 June 2019, TBC Bank issued U.S.$300,000,000 of 5.75% senior unsecured notes due 19 June 2024 (the "**Senior Notes**"). See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*".

(6) There has been no material change to the TBC's capitalisation since 31 March 2019.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected consolidated statement of profit or loss and other comprehensive income data and selected consolidated statement of financial position data presented below have been derived from the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements, which appear elsewhere in this Prospectus. The additional financial data includes non-IFRS measures and was derived from data extracted from the Audited Consolidated Financial Statements, Unaudited Consolidated Interim Financial Statements and unaudited consolidated management accounts. Prospective investors should read this financial information in conjunction with the information contained in "*Risk Factors*", "*Capitalisation and Indebtedness", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Statistical and Other Information*" *and* "*Business Description*", as well as the Audited Consolidated Financial Statements, the Unaudited Consolidated Interim Financial Statements and all other financial data appearing elsewhere in this Prospectus.

TBC adopted IFRS 9, "Financial Instruments", from 1 January 2018. TBC elected not to restate comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 and 2016 is reported under IAS 39 and is not comparable to the information presented for 2018. For more information, see Note 2 to the Audited Consolidated Financial Statements.

Consolidated Results of Operations

The following table sets out the principal components of TBC's consolidated statement of profit or loss and other comprehensive income for the periods indicated.

	For the three months ended 31 March		For the year ended 31 December		
	2019	2018	2018	2017	2016
	(unaudited)		(audited)		
	(GEL thousands)				
Interest income	337,556	289,728	1,283,213	1,033,709	766,410
Interest expense	(142,801)	(115,451)	(512,655)	(432,142)	(277,122)
Net interest income	**194,755**	**174,277**	**770,558**	**601,567**	489,288
Fee and commission income	60,905	49,940	234,626	192,752	142,802
Fee and commission expense	(19,082)	(15,908)	(78,134)	(67,951)	(52,110)
Net fee and commission income	**41,823**	**34,032**	**156,492**	**124,801**	**90,692**
Net gains from trading in foreign currencies	21,588	17,080	91,678	87,099	70,159
Net gains/(losses) from foreign exchange translation	3,690	2,733	15,503	4,595	(2,528)
Net losses from derivative financial instruments	(158)	16	(204)	(36)	(206)
Net gains from disposal of investment securities measured at fair value through other comprehensive income	68	—	2	—	—
Net gains from disposal of available for sale investment securities	—	—	—	93	9,293
Other operating income	3,668	6,248	30,906	31,511	23,214
Share of profit of associates	169	308	1,154	909	—
Other operating non-interest income	**29,025**	**26,385**	**139,039**	**124,171**	**99,932**
Credit loss allowance for loan to customers	(36,416)	(27,999)	(143,723)	(93,823)	(49,202)
Credit loss allowance for investments in finance lease	(41)	(240)	(1,765)	(492)	(558)
Credit loss allowance for performance guarantees and credit related commitments	432	(3,637)	(3,486)	390	(771)
Credit loss allowance for other financial assets	3,000	(7,413)	(16,446)	(12,212)	(2,569)
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(17)	71	(86)	—	—
Impairment of investment securities available for sale	—	—	—	—	(11)
Operating income after credit impairment losses	**232,561**	**195,476**	**900,583**	**744,402**	**626,801**
Staff costs	(54,234)	(49,466)	(212,469)	(196,826)	(171,304)
Depreciation and amortisation	(15,806)	(10,387)	(45,278)	(36,882)	(27,980)
(Provision for)/recovery of provision for liabilities and charges	—	—	(4,000)	2,495	(2,210)
Administrative and other operating expenses	(27,557)	(27,276)	(134,185)	(115,746)	(108,201)
Operating expenses	**(97,597)**	**(87,129)**	**(395,932)**	**(346,959)**	**(309,695)**
Profit before tax	**134,964**	**108,347**	**504,651**	**397,443**	**317,106**
Income tax expense	(2,727)	(10,514)	(71,351)	(34,662)	(17,421)
Profit for the year	**132,237**	**97,833**	**433,300**	**362,781**	**299,685**

As supplemental information to the IFRS financial information, Management analyses and discloses key performance measures adjusted by effect of transactions and events that, in the opinion of Management, are of a non-recurring nature. Such "underlying" measures are APMs and are presented below together with the reconciliation to the financial statements line items. These APMs are unaudited and are

supplementary measures of TBC's performance that are not required by, or presented in accordance with, IFRS.

	As at and for the year ended 31 December	
	2018	2017
	(unaudited) (GEL thousands)	
Reported operating expenses	**(395,932)**	**(346,959)**
One-time costs related to Bank Republic integration (consulting costs)	—	10,924
Underlying operating expenses	(395,932)	(336,035)
Reported profit before tax	**504,651**	**397,443**
Underlying profit before tax	504,651	408,367
Reported income tax expense	**(71,351)**	**(34,662)**
Reversal of the one-time deferred tax gain	17,426	—
Effect on tax of one-time items	—	(1,639)
Underlying income tax expense	(53,925)	(36,301)
Reported profit for the year	**433,300**	**362,781**
Underlying profit for the year	450,726	372,067
Reported profit for the year less non-controlling interest	**433,051**	**362,429**
Underlying profit for the year less non-controlling interest	450,478	371,715
Average reported equity attributable to equity holders	**1,907,236**	**1,692,399**
Adjustment for one-time items on monthly average basis	(10,088)	(5,025)
Average underlying equity attributable to equity holders	1,917,324	1,697,424
Reported return on equity	**22.7%**	**21.4%**
Underlying return on equity	21.9%	23.5%
Reported return on assets	**3.2%**	**3.2%**
Underlying return on assets	3.3%	3.2%

	As at and for the year ended 31 December	
	2017	**2016**
	(unaudited) **(GEL thousands)**	
Reported net interest income	**601,567**	**489,288**
One-time interest income related to large corporate borrowers	—	(13,814)
One-time interest expense related to prepayment of subordinated loans	—	2,457
Underlying net interest income	601,567	477,931
Reported other operating non-interest income	**124,171**	**99,932**
One-time gain on sale of investment securities	—	(8,795)
Underlying other operating non-interest income	124,171	91,137
Reported operating income	**850,539**	**679,912**
Underlying operating income	850,539	659,760
Reported operating income after provisions for impairment	**744,402**	**626,801**
One-time recovery of previously written-off principal	—	(26,217)
One-time currency effect on provisions	—	9,600
Underlying operating income after provisions for impairment	744,402	590,032
Reported operating expenses	**(346,959)**	**(309,695)**
One-time costs related to premium listing	—	16,227
One-time costs related to Bank Republic integration (consulting costs)	10,924	8,000
One-time costs related to impairment of intangible assets of Bank Republic	—	2,025
One-time costs related to staff redundancy provision related to Bank Republic acquisition	—	2,210
Underlying operating expenses	(336,035)	(281,233)
Reported profit before tax	**397,443**	**317,106**
Underlying profit before tax	408,369	308,799
Reported income tax expense	**(34,662)**	**(17,421)**
One-time tax credit	—	(17,875)
Effect on tax of one-time items	(1,639)	1,246
Underlying income tax expense	(36,301)	(34,049)
Reported profit for the year	**362,781**	**299,685**
Underlying profit for the year	372,067	274,750
Reported non-controlling interest	**352**	**(2,806)**
Underlying non-controlling interest	352	(2,806)
Reported profit for the year less non-controlling interest	**362,429**	**302,491**
Underlying profit for the year less non-controlling interest	371,715	277,556

Consolidated Statement of Financial Position

The following tables set out TBC's assets, liabilities, and equity as of the dates indicated.

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		(audited)	
		(GEL thousands)		
Assets				
Cash and cash equivalents	921,918	1,164,403	1,428,771	944,767
Due from other banks	22,112	37,384	37,789	23,824
Mandatory cash balances with the NBG	1,416,082	1,422,809	1,033,818	990,642
Loans and advances to customers	10,029,320	10,038,452	8,325,353	7,133,702
Investment securities measured at fair value through other comprehensive income[(1)]	836,482	1,005,239	—	—
Investment securities available for sale[(1)]	—	—	657,938	430,703
Bonds carried at amortised cost	624,021	653,703	449,538	372,956
Investments in finance leases	208,243	203,802	143,836	95,031
Investment properties	84,055	84,296	79,232	95,615
Current income tax prepayment	11,088	2,159	19,084	7,429
Deferred income tax asset	1,868	1,992	2,605	3,265
Other financial assets	110,228	154,259	134,135	91,895
Other assets	193,344	177,923	147,792	170,756
Premises and equipment	364,457	366,071	366,065	313,584
Intangible assets	118,681	108,505	83,072	60,698
Goodwill	29,459	29,459	26,892	26,892
Investments in Subsidiaries and Associates	2,601	2,432	1,278	—
Repurchase Receivables	89,768	—	—	—
Right of use assets	58,452	—	—	—
Total assets	**15,122,179**	**15,452,888**	**12,937,198**	**10,761,759**
Liabilities				
Due to credit institutions	2,692,585	3,031,505	2,644,714	2,199,976
Customer accounts	9,294,456	9,444,746	7,835,323	6,461,582
Other financial liabilities	150,598	78,205	79,774	50,153
Current income tax liability	37	63	447	2,579
Debt securities in issue	13,415	13,343	20,695	23,508
Deferred income tax liability	19,337	22,237	602	5,646
Provisions for liabilities and charges	13,376	13,817	10,306	15,294
Other liabilities	56,019	86,296	70,187	62,851
Subordinated debt	664,330	650,919	426,788	368,381
Total liabilities	**12,904,153**	**13,341,131**	**11,088,836**	**9,189,970**
Equity				
Share capital	21,014	21,014	21,014	20,617
Share premium	521,190	521,190	521,190	504,161
Retained earnings	1,676,122	1,543,581	1,244,206	960,060
Share based payment reserve	(59,932)	(33,591)	(7,272)	23,327
Revaluation reserve for premises	56,608	57,153	70,038	70,460
Fair value reserve	9,800	8,775	—	—
Revaluation reserve for available-for-sale securities	—	—	1,809	(3,681)
Cumulative currency translation reserve	(7,291)	(6,933)	(7,358)	(7,538)
Net assets attributable to owners	**2,217,511**	**2,111,189**	**1,843,627**	**1,567,406**
Non-controlling interest	**515**	**568**	**4,735**	**4,383**
Total equity	**2,218,026**	**2,111,757**	**1,848,362**	**1,571,789**
Total liabilities and equity	**15,122,179**	**15,452,888**	**12,937,198**	**10,761,759**

Notes:

(1) Following the adoption by TBC of IFRS 9 "Financial Instruments" as of 1 January 2018, "Investment securities available for sale" was renamed "Investment securities measured at fair value through other comprehensive income".

Selected Financial Ratios

The following table sets out TBC's selected financial ratios as of the dates indicated.

	As at and for the three months ended 31 March		As at and for the years ended 31 December		
	2019	2018	2018	2017	2016
			(unaudited) (GEL thousands except percentages)		
Profitability ratios:					
ROAA[1]	3.5%	3.2%	3.2%	3.2%	3.9%
Underlying ROAA[2]	*3.5%*	*3.2%*	*3.3%*	*3.2%*	*3.6%*
ROAE[3]	24.7%	21.7%	22.7%	21.4%	22.8%
Underlying ROAE[4]	*24.6%*	*21.7%*	*23.5%*	*21.9%*	21.0%
Yields on interest earning assets[5]	10.5%	11.5%	11.4%	11.1%	12.2%
Cost of funds[6]	4.5%	4.4%	4.5%	4.5%	4.5%
Cost to income ratio[7]	36.7%	37.1%	37.1%	40.8%	45.5%
Underlying cost to income ratio[8]	*36.7%*	*37.1%*	*37.1%*	*39.5%*	*42.6%*
Cost of risk[9]	1.4%	1.3%	1.6%	1.2%	1.0%
FX-adjusted cost of risk[10]	1.4%	1.7%	1.5%	1.4%	0.8%
Cost per assets ratio[11]	2.6%	2.8%	2.9%	3.0%	4.1%
Net interest margin[12]	6.1%	6.9%	6.8%	6.5%	7.8%
Underlying net interest margin[13]	*6.1%*	*6.9%*	*6.8%*	*6.5%*	*7.6%*
Risk-adjusted net interest margin[14]	4.6%	5.2%	5.3%	5.1%	6.3%
Net interest spread[15]	6.0%	7.0%	6.9%	6.6%	7.7%
Loan yield[16]	11.5%	12.3%	12.3%	12.1%	13.4%
Risk-adjusted loan yield[17]	10.1%	10.6%	10.8%	10.7%	12.1%
Customer deposit yield[18]	3.4%	3.3%	3.3%	3.5%	3.3%
Net fee and commission income to total income	15.7%	14.5%	14.7%	14.7%	13.3%
Liquidity ratios:					
Liquidity coverage ratio	117.5%	104.6%	113.9%	112.7%	N/A
Net loans to deposits and IFIs ratio[19]	89.5%	92.7%	89.1%	92.3%	93.3%
Non-performing Loan ratio[20]	3.3%	3.1%	3.1%	3.3%	3.5%
Non-performing Loan coverage ratio[21]	100.1%	114.6%	102.7%	81.8%[22]	88.4%
Non-performing Loan coverage ratio with collateral[23]	210.8%	225.8%	216.4%	186.5%[24]	222.5%
Credit loss allowance level to gross loans ratio[25]	3.3%	3.5%	3.2%	2.7%[26]	3.1%
Asset quality:					
Average total assets	15,115,875	12,509,885	13,585,274	11,466,594	7,634,587
Average total equity	2,172,972	1,827,908	1,910,742	1,696,947	1,331,939
Leverage[27]	6.8x	6.7x	7.3x	7.0x	6.8x
Average interest-earning assets	13,045,075	10,238,603	11,275,574	9,324,820	6,264,752
Average interest-bearing liabilities	12,753,225	10,532,785	11,503,774	9,634,917	6,182,624
Dividend payout ratio[28]	N/A	N/A	26.4%	26.1%	25.2%
Capital Adequacy:					
NBG (liquidity)	35.9%	30.8%	33.3%	32.5%	30.8%
NBG (Basel III) Tier I Capital Adequacy Ratio[29]	13.8%[30]	13.8%	12.8%	13.4%	N/A
NBG (Basel III) Total Regulatory Capital Adequacy Ratio[29]	19.1%[30]	17.7%	17.9%	17.5%	N/A

Notes:

(1) ROAA equals profit for the period divided by monthly average total assets for the period, annualised where applicable.

(2) Underlying ROAA equals underlying profit for the period divided by monthly average total assets for the same period, annualised where applicable.

(3) ROAE is profit for the period attributable to shareholders divided by monthly average total equity for the period attributable to shareholders, annualised where applicable.

(4) Underlying ROAE is underlying profit for the period attributable to shareholders divided by the monthly average of total shareholders' equity attributable to the Parent Company's equity holders for the same period adjusted for the respective one-off items.

(5) Yields on interest earning assets equals total interest income divided by the 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, and EUR mandatory reserves with the NBG which currently has negative interest, and includes other earning items from due from banks.

(6) Cost of funds equals interest expense for the period divided by total average interest-bearing liabilities for the period, annualised where applicable.

(7) 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).

(8) Underlying cost to income ratio equals underlying total operating expenses for the period divided by the underlying total revenue for the same period.

(9) Cost of risk equals credit loss allowance divided by the monthly average gross loans and advances to customers, annualised where applicable.

(10) FX-adjusted cost of risk is calculated based on currency rates of the respective prior periods.

(11) Cost per assets ratio equals total operating expenses for the period divided by the monthly average total assets.

(12) Net interest margin (NIM) equals net interest income for the period divided by monthly average interest-earning assets, annualised where applicable. Interest-earning asset 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, and EUR mandatory reserves with the NBG (which currently has negative interest), and includes other earning items from due from banks.

(13) Underlying NIM equals underlying net interest income for the period divided by average-interest-earning assets for the period. 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, and EUR mandatory reserves with the NBG (which currently has negative interest), and includes other earning items from due from banks.

(14) Risk-adjusted NIM equals NIM minus cost of risk without one-offs and currency affect.

(15) Net interest spread is calculated as the difference between interest income to average interest-earning assets and cost of funds.

(16) Loan yield equals total interest income from loans for the period divided by the average total gross loans for the same period.

(17) Risk-adjusted loan yield equals loan yield minus cost of risk without one-time items and currency affect.

(18) Customer deposit yield equals total interest expense from amounts due to customers for the period divided by the average total amounts due to customers for the same period.

(19) Net loans to deposits and IFIs ratio equals net loans divided by total deposits plus borrowings received from IFIs.

(20) Non-performing Loan ratio equals Non-performing Loans divided by the gross loan portfolio for the same period.

(21) Non-performing Loan coverage ratio equals credit loss allowance (calculated in accordance with IAS 39 as at 31 December 2016 and 2017, and in accordance with IFRS 9 as at 31 December 2018 and 31 March 2019) divided by total Non-performing Loans.

(22) Non-performing Loan coverage ratio determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 104.7%.

(23) Non-performing Loan coverage ratio with collateral equals credit loss allowance (calculated in accordance with IAS 39 as at 31 December 2016 and 2017, and in accordance with IFRS 9 as at 31 December 2018 and 31 March 2019) plus total collateral amount (excluding third party guarantees) discounted at 30-50% depending on segment type, divided by total Non-performing Loans.

(24) Non-performing Loan coverage ratio with collateral determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 209.4%.

(25) Credit loss allowance level to gross loans ratio equals credit loss allowance divided by the gross loan portfolio for the same period.

(26) Credit loss allowance level to gross loans ratio determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 3.4%.

(27) Leverage equals total assets divided by total equity

(28) Dividend payout ratio is dividends declared, divided by consolidated profit for the previous year.

(29) Calculated in accordance with the new NBG regulation, which came into force in December 2017.

(30) If these ratios were calculated as if the Notes had been issued as at 31 March 2019, the NBG (Basel III) Tier I Capital Adequacy Ratio and the NBG (Basel III) Total Regulatory Capital Adequacy Ratio as at 31 March 2019 would have been 16.4% and 21.7%, respectively (based on a USD/GEL exchange rate of U.S.$1.00 = GEL 2.6914, the official exchange rate reported by the NBG on 31 March 2019).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in TBC's results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "Forward-Looking Statements" and "Risk Factors". In this Prospectus, the consolidated financial statements presented are those of TBC. Unless otherwise indicated, all of the financial data and discussions thereof are based on the Audited Consolidated Financial Statements, the Unaudited Consolidated Interim Financial Statements and the unaudited consolidated management accounts, and should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements included elsewhere in this Prospectus. See "Presentation of Financial and Certain Other Information".

Overview

TBC Bank is the established leader in the Georgian banking sector, with a total market share of 38.4% of loans and 40.4% of customer deposits in Georgia as at 31 March 2019, according to NBG data. It held the number one position in total assets, total loans (to both individuals and legal entities) and total deposits (to both individuals and legal entities), according to NBG data as at 31 March 2019.

TBC offers a wide range of banking products and services to its retail, corporate and MSME clients. TBC's lending activities include providing business, mortgage, consumer and micro loans, as well as guarantees, letters of credit and overdrafts. TBC also offers current and savings accounts and term deposits, credit and debit cards, currency exchange facilities and other products. Apart from its core activities, TBC Bank offers leasing, investment banking and brokerage services through its subsidiaries. In addition, TBC has credit operations in Azerbaijan (TBC Kredit) and operations in Israel focused on deposit collection (TBC Invest).

TBC has an award-winning omni-channel distribution platform, with particular expertise in digital channels. TBC's distribution platform at 31 March 2019 comprised 148 branches, advanced internet and mobile banking applications and Georgia's first fully-digital bank, Space, launched in May 2018, as well as a call centre with the first voice biometric recognition system in Georgia and wide network of self-service terminals (3,320). See "*—Distribution Network*". In addition, TBC has one of the largest networks of ATMs and POS terminals in Georgia, consisting of 510 ATMs and 17,857 POS terminals.

TBC's operations are predominantly focused on the Georgian banking market, which operations accounted for 97.6% of TBC's total assets and 98.5% of its profit as at and for the three months ended 31 March 2019. TBC's retail, corporate and MSME segments are its key business areas, accounting for 44.2%, 32.5% and 23.4% of its total gross loans as at 31 March 2019, respectively.

As at 31 March 2019, TBC Bank had total assets of GEL 15.1 billion, total gross loans and total deposits of GEL 10.4 billion and GEL 9.3 billion, respectively, and total equity of GEL 2.2 billion. TBC's profit was GEL 132.2 million for the three months ended 31 March 2019 and GEL 433.3 million for the year ended 31 December 2018. TBC's cost to income and annualised ROAE ratios were 36.7% and 24.7%, respectively, for the three months ended 31 March 2019 and 37.1% and 22.7% (or underlying ROAE of 23.5%), respectively, for the year ended 31 December 2018. As at 31 March 2019, TBC Bank had 6,851 employees.

TBC Bank is financially robust and has a high quality balance sheet, with a net loan to deposit plus IFI funding ratio of 89.5%, a Non-performing Loan to gross loan portfolio ratio of 3.3%, a Non-performing Loan coverage ratio of 100.1% and a net stable funding ratio of 123.8% as at 31 March 2019. TBC's Tier 1 and Total Regulatory Capital ratios per Basel III guidelines stood at 13.8% and 19.1%, respectively, well above the corresponding minimum requirements of 11.9% and 16.9% set by the NBG. Management believes that these capital levels provide a strong capital base to support TBC. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

On 16 April 2019, Fitch affirmed TBC Bank's Long-term Issuer Default Rating at "BB−" and revised its outlook to stable from positive. Moody's upgraded TBC Bank's local currency deposit rating to and foreign currency deposit rating "Ba2" and "Ba3", respectively, on 13 September 2017.

TBC Bank has won numerous local and international awards for its business, customer service and innovative technology applications, which include 34 awards for "Best Bank in Georgia" since 2002 from

The Banker, *EMEA Finance*, *Euromoney* and *Global Finance*. Furthermore, TBC Bank has won multiple digital awards in different categories from *Global Finance*, including five global and 25 countrywide and regional (CEE) awards since 2012. In addition, in 2018, TBC's Ti-transfer, an innovative and safe money transfer system via chat extension, was named "Best Alternative Payments Project" at the Payments Awards ceremony organised by FStech and Retail Systems.

TBC Bank Group PLC is the UK-incorporated parent company of TBC Bank. The Parent Company is listed on the premium listing segment of the London Stock Exchange. The Parent Company is also the parent company of JSC TBC Insurance, TBC International LLC and Inspired LLC, which are sister companies of TBC Bank. TBC Insurance, a wholly owned subsidiary of TBC Bank Group PLC, was acquired in October 2016 and is TBC's main bancassurance partner. TBC International was established in 2019 with a purpose to unite all newly established ecosystems under one umbrella. Inspired LLC is a leading payment platform in Uzbekistan trading under the Payme brand. The Parent Company acquired a 51% stake in the company in April 2019 in line with its strategy to expand its operations in Uzbekistan.

Key Factors Affecting TBC's Financial Condition and Results of Operations

TBC's financial condition and results of operations are affected by numerous factors. Management believes that the following are of particular importance:

General economic conditions in Georgia

Because TBC operates primarily in Georgia, its financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in Georgia. Georgian operations accounted for 99.5%, 99.5%, 99.1% and 98.2% of TBC's total interest income for the three months ended 31 March 2019, and the years ended 31 December 2018, 2017 and 2016, respectively, and 99.8%, 99.7%, 99.5% and 99.4% of TBC's total loans to customers were to Georgian borrowers as at 31 March 2019 and 31 December 2018, 2017 and 2016, respectively.

There has been continued growth in the Georgian economy during the periods under review. According to data published by Geostat, real GDP in Georgia grew by 2.8% in 2016, 4.8% in 2017 and 4.7% in 2018. 2016-2018 growth was broad based across different sectors with trade and repairs, manufacturing, construction, real estate, transport and communication and hotels and restaurants contributing the most. Despite the weakening backdrop in the region, inflows remained strong in 2018. Exports, tourism and remittances grew by 19.4% in 2018 in US$ terms, mostly driven by inflows from the EU, followed by Azerbaijan, Russia and other CIS economies. The increase was lower as compared with 26.9% in 2017 and stronger than 4.3% in 2016. In 2016, 2017 and 2018, exports, tourism and remittances increased by 12.8%, 17.3% and 11.1% respectively when expressed in EUR, according to Geostat and NBG data. FDI inflows were down at 7.9% of GDP in 2018 after levels of 11.5% and 12.5% in 2016 and 2017. In 2018, Georgia had a current account deficit to GDP ratio of 7.7% (13.1% in 2016 and 8.8% in 2017) driven by stronger external inflows as well as a reduction in FDI related imports. Georgia's current account deficit to GDP adjusted for reinvested earnings stood at 12.0% in 2016, 6.1% in 2017 and 6.0% in 2018.

Along with the development of monetary policy instruments, the NBG gradually lowered the inflation target from 5% in 2016 to 4% in 2017 and to 3% in 2018 and thereafter. The NBG's policy rate stood at 6.5% as of March 2019—down from 8% in 2016. During this period, the NBG actively used the policy rate in both directions to mitigate risks to price stability arising from exchange rate depreciation. Gross international reserves were USD 3,277 million as of March 2019. Fiscal policy remained prudent with a fiscal deficit to GDP ratio of 3.0% in 2016, 2.9% in 2017 and 2.4% in 2018 and a public debt to GDP ratio of 44.4% in 2016, 44.2% in 2017 and 43.9% in 2018.

Bank loan penetration within the Georgian banking sector has continued to grow in recent years. According to NBG data, the loans-to-GDP ratio in Georgia was 64.7% in 2018, 58.9% in 2017 and 55.5% in 2016, driven by credit growth and a weaker exchange rate. In 2016, 2017 and 2018, bank credit increased by 10.5%, 19.2% and 17.1%, respectively, at a constant exchange rate and at 18.0%, 17.9% and 19.3%, respectively, at a current exchange rate.

TBC adopted a prudent approach and prioritised balance sheet quality over growth in 2018. TBC's total assets increased to GEL 15,452.9 million as at 31 December 2018 from GEL 12,937.2 million as at 31 December 2017 and GEL 10,761.8 million as at 31 December 2016. TBC increased profitability, earning a profit of GEL 433.3 million for the year ended 31 December 2018, compared to GEL 362.8 million for the year ended 31 December 2017 and GEL 299.7 million for the year ended 31 December 2016.

Yields on interest-earning assets

TBC derives the majority of its total income from net interest income. Consequently, TBC's NIM is a significant factor in determining TBC's profitability. Although NIMs in Georgia remain generally higher than those in most Western European countries, they have been generally declining over the past few years, which, despite the increase rates on loans linked to the Lari refinancing rate (a result of the gradual decrease in the Lari refinancing rate from 7.25% to 7.0% in 2018), is due to decreasing loan interest rates in Georgia. Increasing competition in the Georgian banking sector creates increased downward pressures on TBC's NIM by forcing TBC to offer lower interest rates on loans, and higher interest rates on deposits, in order to remain competitive. Decreases in interest rates on TBC's loans to customers without corresponding decreases in rates payable on deposits or other interest-bearing liabilities have a negative impact on TBC's profitability. The loan interest rates that TBC is able to offer to customers are to some extent also influenced by the monetary policy (refinancing) rates set by the NBG and by the yields on Government securities, as decreases in Government bond yields will generally influence market interest rates.

In addition, the proportion of loans to TBC's total interest-earning assets also impacts interest income as non-loan interest-earning assets (which are primarily amounts due from other banks, investment securities and finance leases) generally have lower yields. Gross loans and advances to customers accounted for 77.4% of TBC's total interest-earning assets as at 31 March 2019, as compared to 76.9% as at 31 December 2018, 79.7% as at 31 December 2017 and 83.6% as at 31 December 2016.

TBC's profitability is also affected by the mix of loan types in its loan portfolio. The market for corporate loans is highly competitive, with resulting downward pressure on interest rates for those loans. Competitive pressure is comparatively lower for loans in the retail and MSME segments, which typically have higher interest rates than do corporate loans. Corporate loans, which comprised 32.5% of TBC's total gross loans to customers as of 31 March 2019, had an average interest rate of 9.5% as at 31 March 2019, compared to retail loans (12.8%) and MSME loans (11.7%) as at the same date. Increases in the proportion of retail and MSME loans in TBC's loan portfolio relative to corporate loans could have a positive effect on TBC's profitability. As at 31 March 2019, retail loans accounted for the largest portion of total gross loans to customers, representing 44.2% of the total, compared to 45.3%, 49.5% and 50.0% as at 31 December 2018, 2017 and 2016, respectively. The proportion of MSME loans have increased, changing from 22.0%, respectively, of total gross loans as at 31 December 2016, to 21.6%, respectively, as at the same date in 2017, and to 24.1%, respectively, as at the same date in 2018 and to 23.4% as at 31 March 2019. Over the same period, the proportion of corporate loans in the gross loan portfolio has also increased, representing 32.5% as at 31 March 2019, compared to 30.6%, 28.9% and 28.0% of total gross loans as at 31 December 2018, 2017 and 2016, respectively. See "*Selected Statistical and Other Information—Loan Portfolio—Loans to customers by type*".

The mix of loan currencies in TBC's loan portfolio also has an impact on TBC's profitability. Because most Lari-denominated loans are short-term consumer loans with higher interest rates (such as instalment loans and credit cards), loans denominated in Lari have enjoyed higher average rates in the periods under review than loans denominated in foreign currencies. In the first three months of 2019, and in the years 2018, 2017 and 2016, TBC's Lari-denominated loans had an average rate of 16.5%, 17.8%, 16.9% and 19.0%, respectively, compared to 8.2%, 8.5%, 9.1% and 10.4%, respectively, for loans denominated in other currencies over the same periods. See "*Selected Statistical and Other Information—Average Balances and Rates*". Lari-denominated loans provide a partial hedge against currency exchange rate fluctuations for customers whose income is also denominated in Lari, and TBC actively markets its Lari-denominated consumer loans and credit cards. Lari-denominated loans made up an increasing proportion of TBC's total gross loans over the periods under review, increasing to 40.4% as at 31 March 2019 from 39.9%, 40.3% and 34.1% as at 31 December 2018, 2017 and 2016, respectively. See "*Selected Statistical and Other Information—Loan Portfolio—Loans by currency*". If the differences in average rates continue, increases in the proportion of Lari-denominated loans in TBC's loan portfolio relative to loans in foreign currencies would positively affect TBC's profitability.

Cost of funding

The cost at which TBC is able to obtain funding for its operations directly impacts TBC's interest expense, which in turn directly affects TBC's profitability. TBC's principal sources of funding are customer deposits and accounts, amounts due to other banks (including term deposits, correspondent accounts and short-term inter-bank loans from the inter-bank market, which are used by TBC to manage its short-term liquidity needs) borrowings from international credit institutions as a source of long-term funding and

subordinated loans from TBC's shareholders. TBC's cost of funding (calculated as interest expense divided by the monthly average interest-bearing liabilities), stood at 4.5% in the three months ended 31 March 2019 and in each of the years ended 31 December 2018, 2017 and 2016.

Customer deposits generally have lower interest rates than loans from banks and other financial institutions, and consequently represent a less expensive source of funding. In the periods under review, TBC intends to optimise its liabilities structure and increase the proportion of customer deposits in total liabilities, which amounted to 72.0% as at 31 March 2019 and 70.8%, 70.7% and 70.3% as at 31 December 2018, 2017 and 2016, respectively.

The cost of funding was also impacted by a slight decrease in the effective interest expense on customer deposits, particularly on retail deposits (calculated as interest expense on customer deposits over the monthly averages of their respective balances) to 2.8% (3.4% for total customer deposits) in the three months ended 31 March 2019, compared to 2.7% (3.3% for total customer deposits), 3.1% (3.5% for total customer deposits) and 3.6% (3.3% for total customer deposits) in the years ended 31 December 2018, 2017 and 2016, respectively, which reflected a trend of decreasing interest rates on customer deposits in the market generally. In 2018, interest rates on savings accounts remained stable whereas interest rates on term deposits increased slightly by 1.0% to 5.3%. On-demand current and savings accounts are often either non-interest bearing or are subject to lower interest rates than term deposits, and a higher proportion of such current and savings accounts in TBC's deposit portfolio will reduce TBC's effective interest expense on deposits. For example, TBC's Lari-denominated deposits, a significant proportion of which consists of such current and savings accounts, may have a higher average rate (6.0%, 5.7%, 5.9% and 4.8% in the three months ended 31 March 2019, and the years 2018, 2017 and 2016, respectively) than deposits denominated in foreign currencies (1.9%, 2.1%, 2.5% and 2.9% in the same periods, respectively), despite the fact that Lari-denominated term deposits and savings accounts typically have higher interest rates than term deposits and savings accounts denominated in U.S. dollars. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Credit quality of loan portfolio

In the periods under review, TBC has benefitted from a loan portfolio with relatively strong credit quality. Prior to December 2015, TBC Bank reported Non-performing Loans as loans that were 90 days past due (**"90 DPD Loans"**). As at 31 December 2018, 2017 and 2016, 90 DPD Loans accounted for 1.2%, 1.4% and 1.3% of the total outstanding principal amount of TBC's gross loan portfolio. In December 2015, TBC began applying an updated methodology for calculating Non-performing Loans, the definition of which was expanded to include loans in respect of which any portion of principal or interest is overdue by more than 90 days or there are identified underlying well-defined weaknesses that may prevent repayment of the credit obligation without recourse to collateral, regardless of the existence of any past due amount or the number of days past due, which accounted for 3.3%, 3.1% and 3.3% as at 31 March 2019, 31 December 2018 and 31 December 2017, respectively. See "*Lending Policies and Procedures—Non-performing and Restructured Loans and overdue finance leases*". TBC's provision expense for loan impairment increased by 30.1% to GEL 36.4 million for the three months ended 31 March 2019 from GEL 28.0 million for the three months ended 31 March 2018, primarily due to the recovery of provisions in the corporate segment partially related to the repayment of certain corporate loans and the technical increase in provisions in the first quarter of 2018 related to the depreciation of the Lari. If the effect of the depreciation of the Lari on provision charges in the first quarter of 2018 was eliminated, loan provision charges would have decreased marginally by GEL 0.6 million for the three months ended 31 March 2019 as compared to the three months ended 31 March 2018. TBC's provision expense for loan impairment increased by GEL 49.9 million to GEL 143.7 million for the year ended 31 December 2018, from GEL 93.8 million for the year ended 31 December 2017. The increase was primarily caused by the updated provisioning methodology due to TBC's adoption of IFRS 9 and a technical increase related to the depreciation of the Lari (60.1% of TBC's gross loan book in 2018 was denominated in foreign currencies, of which U.S. dollar-denominated loans represented 82.3%). Management estimates that the provision expense for loan impairment would have increased by GEL 42.0 million in 2018 as compared to 2017 if the effect of the depreciation of the Lari on the provision expense for loan impairment was eliminated.

The cost of risk (calculated as provision expense on gross loan amounts over the monthly averages of their respective balances) increased from 1.2% as at 31 December 2017 to 1.6% (which Management estimates would have been 1.5% if the effect of the depreciation of the Lari was eliminated) as at 31 December 2018, and decreased to 1.4% as at 31 March 2019 (compared to 1.3% as at 31 March 2018). The increase for the

year ended 31 December 2018 had a negative impact on TBC's profitability, whereas the decrease for the three months ended 31 March 2019 had a positive impact on TBC's profitability.

TBC's provision expense for loan impairment increased by GEL 44.6 million, or 90.7%, to GEL 93.8 million for the year ended 31 December 2017 from GEL 49.2 million for the year ended 31 December 2016. The increase was driven by increased charges on loans due to portfolio growth in 2017 and the depreciation of the Lari against the U.S. dollar (59.7% of TBC's gross loan book in 2017 was denominated in foreign currencies, of which U.S. dollar-denominated loans represented 55.5%) as well as the fact that in 2016, TBC Bank had a one-time recovery of GEL 26.2 million from a corporate customer which had a positive impact on 2016 provisions. The corresponding cost of risk increased from 1.0% as at 31 December 2016 to 1.2% as at 31 December 2017.

Growth in loan portfolio

TBC's interest income is affected by increases or decreases in the value of its loan portfolio impact. The value of TBC's total gross loans to customers decreased slightly in the first three months of 2019 to GEL 10,366.9 million as at 31 March 2019 due to a reduction in the retail and MSME portfolios. This decrease reflected TBC's strategic focus on profitability and lending quality, driven in part by new NBG regulations requiring more conservative lending practices. Although this resulted in fewer loans and a decline in TBC's NIM for the quarter, it had a positive effect on TBC's cost of risk due to TBC maintaining higher cash balances and the yield on cash being lower than the yield on loans. Total gross loans to customers increased by 21.3% in 2018 to GEL 10,372.6 million as at 31 December 2018 from GEL 8,553.2 million as at 31 December 2017, principally driven by increases in the corporate loan portfolio as well as by comparatively higher increases in the MSME and retail loan portfolios. Total gross loans to customers also increased by 16.2% during 2017, from GEL 7,358.7 million as at 31 December 2016, driven by increased lending in each of the retail, corporate and MSME segments.

Non-interest income

Net fee and commission income (calculated as fee and commission income less fee and commission expense) amounted to GEL 41.8 million and GEL 34.0 million for the three months ended 31 March 2019 and 2018, respectively, accounting for 15.7%, and 14.5% of TBC's "operating income" (calculated as the sum of net interest income, net fee and commission income and other operating non-interest income), respectively, for the same periods. Net fee and commission income amounted to GEL 156.5 million, GEL 124.8 million and GEL 90.7 million for the years ended 31 December 2018, 2017 and 2016, respectively, accounting for 14.7%, 14.7% and 13.3% of TBC's operating income, respectively, for the same years. The key drivers of fee and commission income are card operations, guarantees and letters of credit issuances, settlement transactions and cash transactions. In each year, the increase in net fee and commission income was driven by increases in fees received from most of the sources, reflecting TBC's efforts to increase its fee and commission income generating capabilities by growing fees from existing sources, such as debit and credit card operations, guarantees, settlement transactions and trade finance, and by introducing new commission-based products and services related to TBC's core banking business.

Operating expenses

TBC's operating expenses comprise staff costs, depreciation and amortisation expenses and administrative and other operating expenses. In the three months ended 31 March 2019, TBC incurred operating expenses of GEL 97.6 million, an increase of 12.0% compared to GEL 87.1 million in the three months ended 31 March 2018. The increase was in large part due to growth in staff costs and an increase in depreciation and amortization related to the introduction of IFRS 16 on 1 January 2019. In the year ended 31 December 2018, TBC incurred operating expenses of GEL 395.9 million, an increase of 14.1% compared to GEL 347.0 million in the year ended 31 December 2017 and GEL 309.7 million in the year ended 31 December 2016. This increase was due to a GEL 15.6 million, or 7.9%, increase in staff costs from 2017 to 2018, a GEL 8.4 million, or 22.8%, increase in depreciation and amortisation and a GEL 18.4 million, or 15.9%, increase in administrative expenses, mainly related to growth of marketing and advertising expenses. The overall growth was driven by a general expansion of the business, the higher performance and the costs of mandatory insurance, which was introduced at the end of 2017.

TBC's cost to income ratio (calculated as operating expenses divided by operating income) was 36.7% and 37.1% in the three months ended 31 March 2019 and 2018, respectively, compared to 37.1%, 40.8% and 45.5% in the years ended 31 December 2018, 2017 and 2016, respectively. The decrease in the three months ended 31 March 2019 was primarily due to a larger scale increase in operating income. TBC has

implemented a number of strategic initiatives to improve its cost to income ratio, including a branch optimization project which envisages moving from a product-centric service model to a client-centric service one. TBC has also developed a plan for back office processes optimization. See "*Description of Business—Strategy—Focus on continuous operational efficiency and cost management*".

Impact of new lending regulations

Beginning on 1 January 2019, new NBG regulations on responsible lending to individuals went into effect, which requires financial institutions to conduct a comprehensive solvency analysis of a borrower before issuing a loan and also sets new limits on PTI and LTV ratios for individual loans. The thresholds are different for domestic and foreign currency loans in order to protect a borrower and the financial system against risks stemming from exchange rate fluctuations. See "*Banking Sector and Banking Regulation in Georgia—Responsible Lending to Individuals*".

In addition, recent changes in Georgian legislation are aimed at increasing access to long-term Lari-denominated loans, adequate sharing of foreign exchange risks and pricing in Lari. These changes included restrictions on issuing small credits and loans in foreign currencies, limitations relating to attraction of funds from individuals and requirements on expressing prices in Lari in offering and/or advertising of goods and services. Effective from January 2019, bank credits and loans up to GEL 200,000 may only be issued in Lari. The creditor loan will not be deemed to be issued in Lari if it is indexed or linked to a foreign currency. See "*Banking Sector and Banking Regulation in Georgia—Restrictions on Issuing Loans in Foreign Currency*".

As a result of these changes, TBC's NIM decreased in the first quarter of 2019 to 6.1% as at 31 March 2019 (compared to 6.8% as at 31 December 2018), mainly due to the new regulatory limitations on TBC's ability to lend money to higher-yield retail customers. TBC's effective interest rate on loans also decreased to 11.5% in first quarter of 2019, a 0.7% decline from the first quarter of 2018, driven by the new regulations as well as a decrease in the NBG refinance rate.

Recent Developments

On 19 June 2019, TBC Bank issued U.S.$300,000,000 of unsecured Senior Notes at an issue price of 98.934% of their principal amount. The notes mature on 19 June 2024, and interest thereon is paid semi-annually at a rate of 5.75% per annum. The conditions of the Senior Notes contains covenants restricting, with certain exceptions, the ability of TBC Bank and, in certain cases, its subsidiaries to: (i) incur liens; (ii) incur indebtedness; (iii) engage in transactions with affiliates; (iv) sell assets; and (v) undertake certain mergers and similar transactions. The conditions also require TBC Bank to maintain at all times an amount in cash and liquid investments in an amount sufficient to pay the interest due on the Senior Notes on the next interest payment date.

Segment Information

For management and internal reporting purposes, TBC categorises each customer as falling within one of its retail, corporate or MSME segments.

In 2018, the Supervisory Board revised TBC's segment categorisations in order to further enhance control and monitoring of TBC's performance, resulting in a transfer of certain customers between segments. Accordingly, the definitions used by TBC for the information presented as at 31 March 2019 and 31 December 2018 is as follows:

Retail: Non-business individual customers or individual business customers who have been granted mortgage loans; all individual customers are included in retail deposits.

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.

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.

The following table sets forth the definitions used by TBC for the information presented as at 31 December 2017 and 31 December 2016:

Retail: All individual customers not included in the other categories.

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.

MSME: 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.

In the future, TBC may reorganise its segments for management efficiency purposes. Such a reorganisation may be undertaken in order to strengthen relationships with MSME clients and to develop new and innovative solutions that better reflect client needs and market specifics.

In addition to its core banking business that TBC conducts within its retail, corporate and MSME segments through TBC Bank and TBC Kredit, TBC also conducts some operations that it considers "non-core banking operations". These operations are typically conducted by TBC Bank's subsidiary companies and include, *inter alia*, leasing and brokerage services, card processing and payment collection services, banking software support services and certain marketing efforts in Israel. These non-core banking operations generated 1.0% of TBC's profit in the three months ended 31 March 2019 (compared to 2.1%, 0.8% and 0.1% in the years ended 31 December 2018, 2017 and 2016, respectively). TBC's Treasury Department also acts as an extra-segmental corporate centre, managing intra-segment adjustments to net interest income across all segments and recognising gains and losses from liquidity, interest rate and market risk management.

For information regarding the results of operations of TBC's segments, see "*—Results of Operations for the Three Month Periods Ended 31 March 2019 and 2018—Segment analysis*", "*—Results of Operations for the Years ended 31 December 2018 and 2017 segment analysis*", "*—Results of Operations for the Years ended 31 December 2017 and 2016—Segment analysis*", Note 27 to the Audited Consolidated Financial Statements and Note 15 to the Unaudited Consolidated Interim Financial Statements.

TBC primarily operates in Georgia, with all of TBC's profit for the three months ended 31 March 2019 and for the year ended 31 December 2018 generated by the TBC group companies based in Georgia, offset by small losses from TBC's operations in Azerbaijan (TBC Kredit) and Israel (TBC Invest).

Results of Operations for the Three Month Periods Ended 31 March 2019 and 2018

Consolidated results of operations

The following table sets out the main components of TBC's consolidated statements of profit or loss and other comprehensive income for the three months indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Interest income	337,556	289,728	16.5%
Interest expense	(142,801)	(115,451)	23.7%
Net interest income	**194,755**	**174,277**	**11.8%**
Fee and commission income	60,905	49,940	22.0%
Fee and commission expense	(19,082)	(15,908)	20.0%
Net fee and commission income	**41,823**	**34,032**	**22.9%**
Net gains from trading in foreign currencies	21,588	17,080	26.4%
Net gains/(losses) from foreign exchange translation	3,690	2,733	35.0%
Net losses from derivative financial instruments	(158)	16	N/A
Net gains from disposal of investment securities measured at fair value through other comprehensive income	68	—	N/A
Other operating income	3,668	6,248	(41.3)%
Share of profit of associates	169	308	(45.1)%
Other operating non-interest income	**29,025**	**26,385**	**10.0%**
Credit loss allowance for loan to customers	(36,416)	(27,999)	30.1%
Credit loss allowance for investments in finance lease	(41)	(240)	(82.9)%
Credit loss allowance for performance guarantees and credit related commitments	432	(3,637)	N/A
Credit loss allowance for other financial assets	3,000	(7,413)	N/A
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(17)	71	N/A
Operating income after credit impairment losses	**232,561**	**195,476**	**19.0%**
Staff costs	(54,234)	(49,466)	9.6%
Depreciation and amortisation	(15,806)	(10,387)	52.2%
Administrative and other operating expenses	(27,557)	(27,276)	1.0%
Operating expenses	**(97,597)**	**(87,129)**	**12.0%**
Profit before tax	**134,964**	**108,347**	**24.6%**
Income tax expense	(2,727)	(10,514)	(74.1)%
Profit for the year	**132,237**	**97,833**	**35.2%**

Interest income

The following table sets out the principal components of TBC's interest income for the periods indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Loans and advances to customers	292,055	256,054	14.1%
Bonds carried at amortised cost	19,934	13,168	51.4%
Investment securities measured at fair value through other comprehensive income	9,420	8,037	17.2%
Due from other banks	5,516	4,797	15.0%
Other interest income			
Investments in leases	10,631	7,672	38.6%
Other	—	—	—
Total interest income	**337,556**	**289,728**	**16.5%**

Total interest income increased by GEL 47.8 million, or 16.5%, to GEL 337.6 million for the three months ended 31 March 2019 from GEL 289.7 million for the three months ended 31 March 2018, with the largest increase in interest income earned on loans and advances to customers, followed by an increase in interest from investment securities available for sale.

Interest income from loans to customers increased by GEL 36.0 million, or 14.1%, to GEL 292.1 million for the three months ended 31 March 2019 from GEL 256.1 million for the three months ended 31 March 2018. This increase was primarily due to an increase in the size of TBC's gross loan portfolio, which increased from GEL 8,432.9 million as at 31 March 2018 to GEL 10,366.9 million as at 31 March 2019. This effect was partially offset by a 0.8% drop in loan yields, driven by a decrease in rates on both Lari and foreign currency-denominated loans, supported by the decrease in rates on loans linked to the Lari refinancing rate.

Interest income from bonds carried at amortised cost and investment securities measured at fair value through other comprehensive income, principally comprising certificates of deposit issued by the NBG and treasury bills issued by the Ministry of Finance, increased by GEL 8.1 million, to GEL 29.4 million for the three months ended 31 March 2019 from GEL 21.2 million for the three months ended 31 March 2018, which was driven by a significant increase in the respective gross portfolios by GEL 538.5 million. This effect was partially offset by decreased yield on such securities mainly related to the gradual decrease of the Lari refinancing rate from 7.25% as of 31 March 2018 to 6.50% as of 31 March 2019.

Interest income from amounts due from other banks increased by GEL 0.7 million, or 15.0%, to GEL 5.5 million for the three months ended 31 March 2019 from GEL 4.8 million for the three months ended 31 March 2018, due to an increase in the respective portfolios by GEL 396.6 million, or 46.1%, and was offset by a 0.4% decline in respective yields related to the declining refinance rate.

Interest income from investments in leases increased by GEL 3.0 million, or 38.6% to GEL 10.6 million for the three months ended 31 March 2019, from GEL 7.7 million for the three months ended 31 March 2018, which was primarily due to an increase in the balance of investments in leases from GEL 145.5 million as at 31 March 2018 to GEL 208.2 million as at 31 March 2019.

The following table sets out the average interest rates on TBC's interest-earning Lari and foreign currency assets, for the periods indicated:

	For the three months ended 31 March							
	2019				2018			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(unaudited) (%)							
Loans and advances to customers	16.5%	8.6%	6.0%	25.8%	17.7%	8.5%	7.8%	26.8%
Bonds carried at amortised cost	5.8%	—	—	—	7.4%	—	—	—
Investment securities measured at fair value through other comprehensive income	8.9%	1.6%	—	—	8.4%	24.9%	—	—
Due from other banks	77.5%	1.0%	(29.7)%	—	67.7%	1.4%	(73.7)%	1.2%
Investments in leases	26.7%	18.7%	13.3%	—	31.7%	18.3%	14.9%	—
Total interest income	**14.9%**	**7.4%**	**6.1%**	**31.3%**	**16.3%**	**7.8%**	**7.4%**	**30.4%**

Note:

* Average interest rates are calculated as interest income by currency divided by the monthly average of the respective balances and annualised.

In the three months ended 31 March 2019, currency blended average interest rates on loans to customers decreased to 11.5% from 12.3% in the three months ended 31 March 2018, primarily due to the decrease in the average interest rates on Lari and foreign currency-denominated loans to customers.

The decrease in average interest rates on Lari-denominated investment securities measured at fair value through other comprehensive income and bonds carried at amortised cost in the three months ended 31 March 2019 compared to the three months ended 31 March 2018 was primarily due to the gradual increase of the Lari refinancing rate from 7.25% as of 31 March 2018 to 6.50% as of 31 March 2019.

Interest expense

The following table sets out the principal components of TBC's interest expense for the periods indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Customer accounts	77,026	63,400	21.5%
Due to credit institutions	49,246	42,004	17.2%
Subordinated debt	15,672	9,640	62.6%
Debt securities in issue	270	407	(33.7)%
Finance lease	587	—	N/A
Total interest expense	**142,801**	**115,451**	**23.7%**

Total interest expense increased by GEL 27.4 million, or 23.7%, to GEL 142.8 million for the three months ended 31 March 2019 from GEL 115.5 million for the three months ended 31 March 2018, mainly due to an increase in interest expenses on customer deposits and amounts due to credit institutions.

Interest expense on customer accounts increased by GEL 13.6 million, or 21.5%, to GEL 77.0 million for the three months ended 31 March 2019 from GEL 63.4 million for the three months ended 31 March 2018. The increase was primarily driven by a 21.3% increase in the size of the portfolio and the expense related to the mandatory deposit insurance, which was reclassified to interest expense from administrative and other operating costs starting from 1 January 2019. Without this expense the growth of interest expense of customer accounts would have been 19.4%. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on amounts due to credit institutions increased by GEL 7.2 million, or 17.2%, to GEL 49.2 million for the three months ended 31 March 2019 from GEL 42.0 million for the three months ended 31 March 2018, mainly due to an increase in the average balances of amounts borrowed during the

period, and was further magnified by increased rates on Lari-denominated borrowings. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates paid by TBC on its Lari and foreign currency-denominated interest-bearing liabilities for the periods indicated:

	For the three months ended 31 March							
	2019				2018			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(unaudited) (%)							
Customer accounts	6.0%	2.1%	0.6%	1.9%	5.8%	2.3%	1.0%	2.5%
Due to credit institutions and debt securities in issue[(1)]	9.2%	5.9%	5.2%	12.4%	8.4%	5.7%	11.4%	12.3%
Subordinated debt	7.7%	9.7%	—	7.7%	—	7.7%	9.5%	—
Lease liabilities	4.9%	5.0%	—	—	—	—	—	—
Total interest expense	6.8%	3.6%	1.3%	3.0%	6.6%	3.5%	1.5%	2.9%

Notes:

* Average interest rates are calculated as interest expense by currency divided by the monthly average of the respective balances and annualised.

(1) Due to credit institutions includes amounts due to other banks, other borrowed funds and debt securities in issue.

The increases on average interest rates on Lari-denominated customer accounts reflected a gradual market increase in interest rates for such funds, as well as an increase in the interest rates offered by TBC in response to market competition in the first quarter of 2019.

Fees and commissions

Fee and commission income

The following table sets out certain information on TBC's fee and commission income for the periods indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Fee and commission income (*in respect of financial instruments not at fair value through profit or loss*):			
Card operations	28,486	21,736	31.1%
Settlement transactions	17,619	16,238	8.5%
Guarantees issued	5,857	4,220	38.8%
Cash transactions	3,169	4,445	(28.7)%
Issuance of letters of credit	1,040	1,072	(3.0)%
Foreign exchange operations	757	490	54.5%
Other	3,977	1,739	N/A
Total fee and commission income	**60,905**	**49,940**	**22.0%**

Fee and commission income increased by GEL 11.0 million, or 22.0%, to GEL 60.9 million for the three months ended 31 March 2019 from GEL 49.9 million for the three months ended 31 March 2018, primarily as a result of increases in fees and commissions from card operations, which in turn was due to increases in the number of active cards and POS terminals.

Fee and commission expense

The following table sets out information on TBC's fee and commission expense for the periods indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Fee and commission expense (*in respect of financial instruments not at fair value through profit or loss*):			
Card operations	14,350	10,467	37.1%
Settlement transactions	2,748	2,138	28.5%
Cash transactions	1,017	1,117	(9.0)%
Guarantees received	402	306	31.4%
Foreign exchange operations	28	2	N/A
Letters of credit	389	260	49.6%
Other	148	1,618	(90.9)%
Total fee and commission expense	**19,082**	**15,908**	**20.0%**

Fee and commission expense increased by GEL 3.2 million, or 20.0%, to GEL 19.1 million for the three months ended 31 March 2019 from GEL 15.9 million for the three months ended 31 March 2018, primarily as a result of increases in fee and commission expense on card operations, is related to the increased number of active cards and POS terminals.

Other operating non-interest income

The following table sets out certain information on TBC's other operating non-interest income and expense items for the periods indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Gains less losses from trading in foreign currencies and foreign exchange translation	25,278	19,813	27.6%
Gains less losses/(losses less gains) from derivative financial instruments	(158)	16	N/A
Net gains from disposal of investment securities measured at fair value through other comprehensive income	68	—	N/A
Share of profit of associates	169	308	(45.1)%
Other operating income:			
Gain from sale of investment properties	148	1,041	(85.8)%
Revenues from operational leasing	863	1,575	(45.2)%
Gain from sale of inventories of repossessed collateral	260	105	N/A
Revenues from sale of cash-in terminals	214	1,026	(79.1)%
Revenues from non-credit related fines	21	84	(75.0)%
Gain on disposal of premises and equipment	1,231	45	N/A
Other	931	2,372	(60.8)%
Total other operating income	**3,668**	**6,248**	**(41.3)%**
Total other operating non-interest income	**29,025**	**26,385**	**10.0%**

Total other operating non-interest income increased by GEL 2.6 million, or 10.0%, to GEL 29.0 million for the three months ended 31 March 2019 from GEL 26.4 million for the three months ended 31 March 2018. This increase was mainly driven by a GEL 5.5 million increase in gains from trading in foreign currencies and foreign exchange translations related to increases in the number and volume of foreign currency transactions in the first quarter of 2019, broadly consistent with the growth of the scale of business. This growth was partially offset by a GEL 2.6 million reduction in other operating income.

Provision charges for impairment

The following table sets out certain information on TBC's provision charges for impairment for the periods indicated:

	For the three months ended 31 March		
	2019	2018	Change
	(unaudited) (GEL thousands)		(%)
Credit loss allowance for loans to customers	(36,416)	(27,999)	30.1%
Credit loss allowance for performance guarantees and credit related commitments	432	(3,637)	N/A
Credit loss allowance for investments in finance lease	(41)	(240)	(82.9)%
Credit loss allowance for other financial assets	3,000	(7,413)	N/A
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(17)	71	N/A
Total credit impairment losses	**(33,042)**	**(39,218)**	**(15.7)%**
Non-performing Loan ratio	3.3%	3.1%	
Non-performing Loan coverage ratio	100.1%	114.6%	
Cost of risk	1.4%	1.3%	

For the three months ended 31 March 2019, TBC's credit impairment losses decreased by GEL 6.2 million, or 15.7%, to GEL 33.0 million from GEL 39.2 million for the three months ended 31 March 2018. Credit loss allowance for loan to customers increased by GEL 8.4 million, or 30.1%, to GEL 36.4 million for the three months ended 31 March 2019 from GEL 28.0 million for the three months ended 31 March 2018. This increase was more than offset by a GEL 10.4 million decrease in credit loss allowance for other financial assets due to a recovery from one debtor in the first quarter of 2019.

Operating expenses

	For the three months ended 31 March		
	2019	2018	Change
	(audited) (GEL thousands)		(%)
Staff costs	54,234	49,466	9.6%
Depreciation and amortization	15,806	10,387	52.2%
Administrative and other operating expenses:			
Advertising and marketing services	4,185	4,422	(5.4)%
Expense for short term, low value lease contracts and contracts that do not qualify for lease contracts*	2,553	5,749	(55.6)%
Intangible asset enhancement	2,741	2,494	9.9%
Professional services	2,878	2,264	27.1%
Insurance	1,231	815	51.0%
Taxes other than on income	1,798	1,644	9.4%
Utility services	1,938	1,734	11.8%
Premises and equipment maintenance	1,921	969	98.2%
Communications and supply	1,383	1,034	33.8%
Stationery and other office expenses	1,042	1,124	(7.3)%
Security services	502	496	1.2%
Business trip expenses	342	312	9.6%
Transportation and vehicle maintenance	391	378	3.4%
Personnel training and recruitment	256	176	45.5%
Charity	1,004	280	N/A
Loss on disposal of premises and equipment	232	278	(16.5)%
Loss on disposal of investment property	—	31	N/A
Loss on disposal of inventories	14	20	(30.0)%
Impairment of Premises & Equipment	(2)	(126)	(98.4)%
Reversal of previously written-down current assets to fair value less costs to sell	—	(3)	N/A
Other	3,148	3,185	(1.2)%
Total administrative and other operating expenses	**27,557**	**27,276**	**1.0%**
Operating expenses	**97,597**	**87,129**	**12.0%**

* As of 1 January 2019, TBC adopted IFRS 16, under which short term and low value lease contracts, as well as contracts that do not qualify for lease arrangements, are expensed under this category of administrative expenses, having been previously recognized as rent expenses under IAS 17.

Total operating expenses increased by GEL 10.5 million, or 12.0%, to GEL 97.6 million for the three months ended 31 March 2019 from GEL 87.1 million for the three months ended 31 March 2018. The increase was principally due to increases of GEL 5.4 million in depreciation and amortization expenses and GEL 4.8 million in staff costs in the first three months of 2019 compared to the same period in 2018.

Staff costs increased by GEL 4.8 million, or 9.6%, to GEL 54.2 million for the three months ended 31 March 2019 from GEL 49.5 million for the three months ended 31 March 2018. This increase was mainly driven by higher performance-related bonuses paid to staff and management.

Depreciation and amortisation expenses increased by GEL 5.4 million, or 52.2%, to GEL 15.8 million for the three months ended 31 March 2019 from GEL 10.4 million for the three months ended 31 March 2018. This increase was mainly driven by the adoption in January 2019 of IFRS 16, which increased depreciation expenses by GEL 3.4 million in the first quarter of 2019.

Total administrative and other operating expenses increased by GEL 0.3 million, or 1.0%, to GEL 27.6 million for the three months ended 31 March 2019 from GEL 27.3 million for the three months ended 31 March 2018. The increase was principally due to an increase in professional services, insurance expenses and maintenance of premises and equipment by GEL 0.6 million, GEL 0.4 million and GEL 1.0 million, respectively, offset by a GEL 3.2 million decrease in expense for short term, low value lease contracts and contracts that do not qualify for lease contracts.

Taxation

TBC reported income tax expense of GEL 2.7 million for the three months ended 31 March 2019, compared to GEL 10.5 million for the three months ended 31 March 2018. The following table sets out certain information on TBC's income tax expense for the years indicated:

	For the three months ended 31 March		
	2019	**2018**	**Change**
	(unaudited) (GEL thousands)		(%)
Current tax charge	(5,498)	(10,340)	(46.8)%
Deferred tax charge/(credit)	2,771	(172)	N/A
Income tax expense	**(2,727)**	**(10,514)**	**(74.1)%**

TBC's income tax expense decreased by GEL 7.8 million, or 74.1%, to GEL 2.7 million for the three months ended 31 March 2019, from GEL 10.5 million for the three months ended 31 March 2018, primarily as a result of the increase in profit before tax. As a result of certain differences between taxable income as defined under applicable Georgian legislation and income recorded according to IFRS, as well as the fact that certain revenues are exempt from income tax under Georgian legislation, TBC's effective tax rate under IFRS was lower than the 15.0% Georgian corporate tax rate generally applicable to TBC.

Profit

TBC's profit for the period increased by GEL 34.4 million, or 35.2%, to GEL 132.2 million for the three months ended 31 March 2019 from GEL 97.8 million for the three months ended 31 March 2018.

Segment analysis

The following table sets out information on the financial results of TBC's segments for the three months ended 31 March 2019 and 2018:

	For the three months ended 31 March 2019 (unaudited) (GEL thousands)				
	Corporate	**Retail**	**MSME**	**Corporate center and other operations**	**Total**
Interest income	78,904	145,814	69,376	43,462	**337,556**
Interest expense	(40,790)	(34,629)	(2,194)	(65,188)	**(142,801)**
Inter-segment interest income/(expense)	11,584	(17,024)	(23,463)	28,903	**—**
Net interest income	**49,698**	**94,161**	**43,719**	**7,177**	**194,755**
Fee and commission income	11,252	44,021	5,255	377	**60,905**
Fee and commission expense	(1,590)	(15,727)	(1,667)	(98)	**(19,082)**
Net fee and commission income	**9,662**	**28,294**	**3,588**	**279**	**41,823**
Net gains from trading in foreign currencies	12,207	6,159	4,446	(1,224)	**21,588**
Net gains from foreign exchange translation	—	—	—	3,690	**3,690**
Net losses from derivative financial instruments	—	(148)	—	(10)	**(158)**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	—	—	—	68	**68**
Other operating income	264	2,409	460	535	**3,668**
Share of profit of associates	—	—	—	169	**169**
Other operating non-interest income	**12,471**	**8,420**	**4,906**	**3,228**	**29,025**
Credit loss allowance for loans to customers	428	(27,359)	(9,485)	(6)	**(36,416)**
Credit loss allowance for performance guarantees and credit related commitments	(144)	393	183	—	**432**
Credit loss allowance for investments in finance lease	—	—	—	(41)	**(41)**
Credit loss allowance for other financial assets	3,864	38	—	(902)	**3,000**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(39)	—	—	—	**(39)**
Credit loss allowance for financial assets measured at amortised cost	—	—	—	22	**22**
Profit before administrative and other expenses and income taxes	**75,940**	**103,947**	**42,911**	**9,763**	**232,561**
Staff costs	(7,770)	(32,551)	(11,116)	(2,797)	**(54,234)**
Depreciation and amortisation	(717)	(12,499)	(2,015)	(575)	**(15,806)**
Administrative and other operating expenses	(2,745)	(17,504)	(4,686)	(2,622)	**(27,557)**
Operating expenses	**(11,232)**	**(62,554)**	**(17,817)**	**(5,994)**	**(97,597)**
Profit before tax	**64,708**	**41,393**	**25,094**	**3,769**	**134,964**
Income tax expense	(9,871)	(5,217)	(3,749)	16,110	**(2,727)**
Profit for the period	**54,837**	**36,176**	**21,345**	**19,879**	**132,237**

	For the three months ended 31 March 2018				
	(unaudited) (GEL thousands)				
	Corporate	Retail	MSME	Corporate center and other operations	Total
Interest income	57,217	149,300	50,999	32,212	**289,728**
Interest expense	(31,371)	(29,436)	(2,593)	(52,051)	**(115,451)**
Inter-segment interest income/(expense)	4,292	(22,996)	(17,984)	36,688	**—**
Net interest income	**30,138**	**96,868**	**30,422**	**16,849**	**174,277**
Fee and commission income	7,015	37,449	5,152	324	**49,940**
Fee and commission expense	(1,268)	(13,031)	(1,540)	(69)	**(15,908)**
Net fee and commission income	**5,747**	**24,418**	**3,612**	**255**	**34,032**
Net gains from trading in foreign currencies	8,770	5,661	4,862	(2,213)	**17,080**
Net gains from foreign exchange translation	—	—	—	2,733	**2,733**
Net losses from derivative financial instruments	—	—	—	16	**16**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	—	—	—	—	**—**
Other operating income	2,292	3,149	209	598	**6,248**
Share of profit of associates	—	—	—	308	**308**
Other operating non-interest income	**11,062**	**8,810**	**5,071**	**1,442**	**26,385**
Credit loss allowance for loans to customers	4,568	(27,884)	(4,683)	—	**(27,999)**
Credit loss allowance for performance guarantees and credit related commitments	(4,070)	148	285	—	**(3,637)**
Credit loss allowance for investments in finance lease	—	—	—	(240)	**(240)**
Credit loss allowance for other financial assets	(7,026)	—	(1)	(386)	**(7,413)**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(10)	—	—	81	**71**
Profit before administrative and other expenses and income taxes	**40,409**	**102,360**	**34,704**	**18,003**	**195,476**
Staff costs	(6,508)	(31,895)	(8,727)	(2,336)	**(49,466)**
Depreciation and amortisation	(506)	(8,519)	(1,134)	(228)	**(10,387)**
Administrative and other operating expenses	(1,772)	(19,977)	(3,284)	(2,242)	**(27,276)**
Operating expenses	**(8,786)**	**(60,391)**	**(13,146)**	**(4,806)**	**(87,129)**
Profit before tax	**31,623**	**41,969**	**21,558**	**13,197**	**108,347**
Income tax expense	(4,867)	(5,399)	(3,214)	2,966	(10,514)
Profit for the period	**26,756**	**36,570**	**18,344**	**16,163**	**97,833**

TBC implements an intra-segment adjustment, or "transfer pricing", mechanism relating to the internal reclassification of interest income and interest expense amongst its segments. Under this mechanism, TBC's Treasury Department acts as a corporate centre that buys all the deposits from the four segments and finances all loans issued by those segments. Gains and losses from liquidity, interest rate and market risk management are attributed to the central Treasury Department. This allows TBC to fund its lending activities in all segments with the most cost-efficient available sources of funding, regardless of which segment is the source of that funding, and to fairly distribute net interest income across all segments. For example, through this transfer pricing mechanism, TBC is able to utilise retail term deposits (which are more diversified and have higher stability and longer maturity than corporate and SME accounts and incur lower costs than corporate and micro term deposits) to fund loans issued across each of the segments. By centrally managing its loan financing activities in this manner, TBC has the ability to better apportion the profitability amongst its segments. The internal transfers made pursuant to the transfer pricing mechanism are recorded as "inter-segment interest income/expense" in the Audited Consolidated Financial Statements. See Note 15 to the Audited Consolidated Financial Statements.

Profit for the period in the corporate segment increased by GEL 28.1 million, from GEL 26.8 million in the three months ended 31 March 2018 to GEL 54.8 million in the three months ended 31 March 2019, driven primarily by a GEL 19.6 million increase in net interest income and a GEL 10.9 million decrease in credit loss allowance for other financial assets. The retail segment profit for the period decreased by GEL 0.4 million (1.1%) from GEL 36.6 million in the three months ended 31 March 2018 to GEL 36.2 million in the three months ended 31 March 2019, mainly due to a decrease in net interest income of GEL 2.7 million. The MSME segment profit for the period increased by GEL 3.0 million (16.4%) from GEL 18.3 million in the three months ended 31 March 2018 to GEL 21.3 million in the three months ended 31 March 2019 due to an increase in net interest income of GEL 13.3 million, offset by a GEL 4.7 million increase in other operating expenses. For a detailed segment analysis, see Note 15 to the Unaudited Consolidated Interim Financial Statements.

Results of Operations for the Years ended 31 December 2018 and 2017

Consolidated results of operations

The following table sets out the main components of TBC's consolidated statements of profit or loss and other comprehensive income for the years indicated:

	For the year ended 31 December		
	2018	**2017**	**Change**
	(audited) (GEL thousands)		(%)
Interest income	1,283,213	1,033,709	24.1%
Interest expense	(512,655)	(432,142)	18.6%
Net interest income	**770,558**	**601,567**	**28.1%**
Fee and commission income	234,626	192,752	21.7%
Fee and commission expense	(78,134)	(67,951)	15.0%
Net fee and commission income	**156,492**	**124,801**	**25.4%**
Net gains from trading in foreign currencies	91,678	87,099	5.3%
Net gains/(losses) from foreign exchange translation	15,503	4,595	N/A
Net losses from derivative financial instruments	(204)	(36)	N/A
Net gains from disposal of investment securities measured at fair value through other comprehensive income	2	—	N/A
Net gains from disposal of available for sale investment securities	—	93	N/A
Total net gains from disposal for investment securities	**2**	**93**	**(97.8)%**
Other operating income	30,906	31,511	(1.9)%
Share of profit of associates	1,154	909	27.0%
Other operating non-interest income	**139,039**	**124,171**	**12.0%**
Credit loss allowance for loan to customers	(143,723)	(93,823)	53.2%
Credit loss allowance for investments in finance lease	(1,765)	(492)	N/A
Credit loss allowance for performance guarantees and credit related commitments	(3,486)	390	N/A
Credit loss allowance for other financial assets	(16,446)	(12,212)	34.7%
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(86)	—	N/A
Operating income after credit impairment losses	**900,583**	**744,402**	**21.0%**
Staff costs	(212,469)	(196,826)	7.9%
Depreciation and amortisation	(45,278)	(36,882)	22.8%
(Provision for)/recovery of provision for liabilities and charges	(4,000)	2,495	N/A
Administrative and other operating expenses	(134,185)	(115,746)	15.9%
Operating expenses	**(395,932)**	**(346,959)**	**14.1%**
Profit before tax	**504,651**	**397,443**	**27.0%**
Income tax expense	(71,351)	(34,662)	N/A
Profit for the year	**433,300**	**362,781**	**19.4%**

Interest income

The following table sets out the principal components of TBC's interest income for the years indicated:

	For the year ended 31 December		
	2018	2017	Change
	(audited)		
	(GEL thousands)		(%)
Loans and advances to customers	1,123,972	919,796	22.2%
Bonds carried at amortised cost	40,625	32,328	25.7%
Investment securities available for sale	—	43,735	N/A
Investment securities measured at fair value through other comprehensive income	57,057	—	N/A
Total investment securities	**57,057**	**43,735**	**30.5%**
Due from other banks	22,722	14,577	55.9%
Other interest income			
Investments in leases	38,837	23,273	66.9%
Total interest income	**1,283,213**	**1,033,709**	**24.1%**

Total interest income increased by GEL 249.5 million, or 24.1%, to GEL 1,283.2 million for the year ended 31 December 2018 from GEL 1,033.7 million for the year ended 31 December 2017, with the largest increase in interest income earned on loans and advances to customers, followed by an increase in interest from investments in leases.

Interest income from loans to customers increased by GEL 204.2 million, or 22.2%, to GEL 1,124.0 million for the year ended 31 December 2018 from GEL 919.8 million for the year ended 31 December 2017. This increase was primarily due to a 21.3% increase in the gross loan portfolio from 2017 to 2018 and the increase in loan yields to 12.3% in 2018 from 12.1% in 2017. See "*Selected Statistical and Other Information—Loan Portfolio*".

Interest income from bonds carried at amortised cost and investment securities, which principally comprise corporate bonds, certificates of deposit issued by the NBG and treasury bills issued by the Ministry of Finance, increased by GEL 21.6 million, to GEL 97.7 million for the year ended 31 December 2018 from GEL 76.1 million for the year ended 31 December 2017. This increase was driven by an increase in both portfolios by GEL 551.0 million, resulting from an increase in the corporate bonds issued by the IFIs and corporations and Ministry of Finance's treasury bills, reflecting the overall increase in the scale of business. See "*Selected Statistical and Other Information—Volume and Rate analysis*".

Interest income from investments in leases increased by GEL 15.6 million, or 66.9%, to GEL 38.8 million for the year ended 31 December 2018, from GEL 23.3 million for the year ended 31 December 2017. This increase was primarily due to the increase in the average balance of investments in leases in 2018 compared to 2017, as well as the fact that a large portion of the interest income from investments in leases was in U.S. dollars, which appreciated against the Lari in 2018. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest income from amounts due from other banks increased by GEL 8.1 million, or 55.9%, to GEL 22.7 million for the year ended 31 December 2018 from GEL 14.6 million for the year ended 31 December 2017, due to an increase in the average balance of amounts due from other banks in 2018, compared to 2017. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates on TBC's interest-earning Lari and foreign currency assets for the years indicated:

	For the year ended 31 December							
	2018				2017			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(unaudited) (%)							
Loans and advances to customers	17.8%	8.6%	6.6%	27.2%	16.9%	9.0%	8.5%	24.9%
Bonds carried at amortised cost	8.2%	—	—	—	8.0%	—	—	—
Investment securities available for sale	—	—	—	—	7.7%	10.6%	—	—
Investment securities measured at fair value through other comprehensive income	7.5%	6.3%	—	—	—	—	—	—
Due from other banks	96.8%	1.4%	(38.4)%	—	12.6%	1.4%	(2.4)%	(0.2)%
Investments in leases	30.2%	20.0%	13.1%	—	32.6%	19.9%	28.0%	—
Total interest income	**16.2%**	**7.8%**	**6.5%**	**31.3%**	**15.0%**	**8.4%**	**6.7%**	**18.8%**

Note:

* Average interest rates are calculated as interest income by currency divided by the monthly average of the respective balances.

In the year ended 31 December 2018, currency blended average interest rates on loans to customers increased to 12.3% from 12.1% in 2017, primarily due to the increase in average interest rates on GEL-denominated loans to customers, broadly aligned with the general market trend of increasing GEL interest rates for that period.

The average interest rates on Lari-denominated investment securities measured at fair value through other comprehensive income (measured as available for sale in 2017 and 2016) remain unchanged in the year ended 31 December 2018 compared to the year ended 31 December 2017, stability in rates was primarily due to the slight decrease of the Lari refinancing rate from 7.25% to 7.0% during 2018.

Interest expense

The following table sets out the principal components of TBC's interest expense for the years indicated:

	For the year ended 31 December		
	2018	2017	Change
	(audited) (GEL thousands)		(%)
Customer accounts	272,279	234,969	15.9%
Due to credit institutions	197,403	158,255	24.7%
Subordinated debt	41,571	36,975	12.4%
Debt securities in issue	1,402	1,943	(27.8)%
Total interest expense	**512,655**	**432,142**	**18.6%**

Total interest expense increased by GEL 80.5 million, or 18.6%, to GEL 512.7 million for the year ended 31 December 2018 from GEL 432.1 million for the year ended 31 December 2017, due to increases in interest expenses related to customer accounts, due to credit institutions and subordinated debt.

Interest expense on customer accounts increased by GEL 37.3 million, or 15.9%, to GEL 272.3 million for the year ended 31 December 2018 from GEL 235.0 million for the year ended 31 December 2017, mainly as a result of a 20.5% increase in customer accounts, which more than offset the 0.2 percentage point decrease in the cost of client deposits from 3.5% to 3.3% in 2018. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on amounts due to credit institutions increased by GEL 39.1 million, or 24.7%, to GEL 197.4 million for the year ended 31 December 2018 from GEL 158.3 million for the year ended 31 December 2017, mainly due to an increase in the average balances of borrowed funds during 2018 and increased effective rates as a result of rise in LIBOR rate. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates paid by TBC on its Lari and foreign currency-denominated interest-bearing liabilities for the years indicated:

	For the year ended 31 December							
	2018				2017			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(unaudited) (%)							
Customer accounts	5.7%	2.3%	0.8%	2.1%	5.9%	2.6%	1.4%	3.1%
Due to credit institutions and debt securities in issue[(1)]	8.6%	6.0%	9.2%	4.8%	8.0%	5.2%	10.4%	37.5%
Subordinated debt	7.7%	9.7%	—	—	7.8%	9.6%	—	—
Total interest expense	**6.6%**	**3.6%**	**1.4%**	**2.2%**	**6.7%**	**3.6%**	**1.9%**	**3.4%**

Notes:

* Average interest rates are calculated as interest expense by currency divided by the monthly average of the respective balances.

(1) Due to credit institutions includes amounts due to other banks and other borrowed funds.

The decrease on average interest rates on Lari-denominated and foreign currency-denominated customer accounts reflected the decrease of the refinancing rate in the country from 7.25% as of 31 December 2017 to 7.0% as of 31 March 2019, which was aligned with the general market trend of declining interest rates on deposits.

Fees and commissions

Fee and commission income

The following table sets out certain information on TBC's fee and commission income for the years indicated:

	For the year ended 31 December		
	2018	2017	Change
	(audited) (GEL thousands)		(%)
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	28.5%
Settlement transactions	70,718	59,730	18.4%
Guarantees issued	19,815	15,121	31.0%
Cash transactions	17,147	17,424	(1.6)%
Issuance of letters of credit	6,463	5,735	12.7%
Foreign exchange operations	2,183	1,339	63.0%
Other	12,234	10,878	12.5%
Total fee and commission income	**234,626**	**192,752**	**21.7%**

Fee and commission income increased by GEL 41.9 million, or 21.7%, to GEL 234.6 million for the year ended 31 December 2018 from GEL 192.8 million for the year ended 31 December 2017, primarily as a result of the increase in fees and commissions from card operations and settlement transactions due to an increase in the scale of operations.

Fee and commission expense

The following table sets out information on TBC's fee and commission expense for the years indicated:

	For the year ended 31 December		
	2018	2017	Change
	(audited) (GEL thousands)		(%)
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	20.6%
Settlement transactions	8,654	7,400	16.9%
Cash transactions	5,180	4,393	17.9%
Guarantees received	2,863	2,873	(0.3)%
Self-service and POS terminal transactions	34	6,436	(99.5)%
Other	5,511	489	N/A
Total fee and commission expense	**78,135**	**67,951**	**15.0%**

Fee and commission expense increased by GEL 10.2 million, or 15.0%, to GEL 78.1 million for the year ended 31 December 2018 from GEL 68.0 million for the year ended 31 December 2018 as a result of increases in fee and commission expense on card operations and settlement transactions, which are linked to foreign currencies and were therefore affected by the depreciation of the Lari.

Other operating non-interest income

The following table sets out certain information on TBC's other operating non-interest income and expense items for the years indicated:

	For the year ended 31 December		
	2018	2017	Change
	(audited) (GEL thousands)		(%)
Gains less losses from trading in foreign currencies and foreign exchange translation	**107,181**	**91,694**	**16.9%**
Gains less losses/(losses less gains) from derivative financial instruments	**(202)**	**(36)**	**N/A**
Net gains from disposal of investment securities measured at fair value through other comprehensive income	**2**	**—**	**100.0%**
Net gains from disposal of available for sale investment securities	**—**	**93**	**(100.0)%**
Share of profit of associates	**1,154**	**909**	**27.0%**
Other operating income:			
Gain from sale of investment properties	9,781	4,353	N/A
Revenues from operational leasing	6,544	6,559	(0.2)%
Warrant option	2,677	—	100.0%
Gain from sale of inventories of repossessed collateral	2,577	2,383	8.1%
Revenues from sale of cash-in terminals	1,715	1,093	56.9%
Revenues from non-credit related fines	487	1,333	(63.5)%
Gain on disposal of premises and equipment	352	1,017	(65.4)%
Gain from sale of receivables	225	4,090	(94.5)%
Reimbursement of taxes	—	2,486	(100.0)%
Gain from marketing promotional services	—	2,077	(100.0)%
Other	6,548	6,120	7.0%
Total other operating income	**30,906**	**31,511**	**(1.9)%**
Total other operating non-interest income	**139,041**	**124,171**	**12.0%**

Total other operating non-interest income increased by GEL 14.9 million, or 11.9%, to GEL 139.0 million for the year ended 31 December 2018 from GEL 124.2 million for the year ended 31 December 2017. This increase was due in part to an increase in gains from trading in foreign currencies and foreign exchange translations in the amount of GEL 15.5 million, or 16.9%, to GEL 107.2 million for the year ended

31 December 2018 from GEL 91.7 million for the year ended 31 December 2017. These gains were driven by increased number and volumes of foreign currency transactions in 2018.

The increase in other operating non-interest income in 2018 from 2017 was partially offset by revenue from several one-time events in 2017 that did not reoccur in 2018, including income from the sale of receivables, reimbursement of taxes and marketing promotional services.

Provision charges for impairment

The following table sets out certain information on TBC's provision charges for impairment for the years indicated:

	For the year ended 31 December		
	2018	**2017**[1]	**Change**
	(audited) (GEL thousands)		(%)
Credit loss allowance for loan to customers	(143,723)	(93,823)	53.2%
Credit loss allowance for investments in finance lease	(1,765)	(492)	N/A
Credit loss allowance for performance guarantees and credit related commitments	(3,486)	390	N/A
Credit loss allowance for other financial assets	(16,446)	(12,212)	34.7%
Credit loss allowance for financial assets measured at fair value through other comprehensive income	(86)	—	100.0%
Total credit impairment losses	**(165,506)**	**(106,137)**	**55.9%**
Non-performing Loan ratio	3.1%	3.3%	
Non-performing Loan coverage ratio	102.7%	81.8%[2]	
Cost of risk	1.6%	1.2%	

Note:

(1) TBC adopted IFRS 9, "Financial Instruments", from 1 January 2018. TBC elected not to restate comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 and 2016 is reported under IAS 39 and is not comparable to the information presented for 2018. For more information, see Note 2 to the Audited Consolidated Financial Statements.

(2) Non-performing Loan coverage ratio determined upon adoption of IFRS 9 at opening balance as of 1 January 2018 equals 104.7%.

For the year ended 31 December 2018, TBC's total credit impairment losses increased by GEL 59.4 million, or 55.9%, to GEL 165.5 million from GEL 106.1 million for the year ended 31 December 2017. The increase in credit impairment losses was primarily driven by increases in the credit loss allowance for loans to customers, which increased by GEL 49.9 million, or 53.2%, to GEL 143.7 million for the year ended 31 December 2018 from GEL 93.8 million. The increase was mainly attributable to the corporate segment following a high recovery of credit loss in 2017.

Operating expenses

	For the year ended 31 December		
	2018	2017	Change
	(audited) (GEL thousands)		(%)
Staff costs	212,469	196,826	7.9%
Depreciation and amortization	45,278	36,882	22.8%
Provision for liabilities and charges	4,000	(2,495)	N/A
Administrative and other operating expenses:			
Advertising and marketing services	28,770	18,021	59.6%
Rent	23,738	22,700	4.6%
Intangible asset enhancement	11,366	10,304	10.3%
Professional services	10,585	12,162	(13.0)%
Insurance	7,659	3,270	N/A
Taxes other than on income	6,686	5,607	19.2%
Utility services	6,486	6,057	7.1%
Premises and equipment maintenance	5,773	5,253	9.9%
Communications and supply	5,030	4,063	23.8%
Stationery and other office expenses	4,636	4,737	−2.1%
Security services	2,040	1,965	3.8%
Business trip expenses	2,005	1,897	5.7%
Transportation and vehicle maintenance	1,988	1,637	21.4%
Personnel training and recruitment	1,809	1,444	25.3%
Charity	1,074	1,045	2.8%
Loss on disposal of premises and equipment	860	492	74.8%
Loss on disposal of inventories	137	1,239	(88.9)%
Impairment of intangible assets	—	1,916	(100.0)%
Reversal of previously written-down current assets to fair value less costs to sell	(1,026)	(538)	90.7%
Other	14,569	12,475	16.8%
Total administrative and other operating expenses	**134,185**	**115,746**	**15.9%**
Operating expenses	**395,932**	**346,959**	**14.1%**

Total operating expenses increased by GEL 49.0 million, or 14.1%, to GEL 395.9 million for the year ended 31 December 2018 from GEL 347.0 million for the year ended 31 December 2017. The increase was principally due to an increase in staff costs by GEL 15.6 million, or 7.9%, to GEL 212.5 million for the year ended 31 December 2018, from GEL 196.8 million in 2017, mainly driven by an increase in salaries and performance-related compensation; excluding one-time costs related to the Bank Republic integration (GEL 3.1 million), staff costs would have increased by GEL 12.5 million.

Administrative and other operating expenses increased by GEL 18.4 million, or 15.9%, to GEL 134.2 million for the year ended 31 December 2018, from GEL 115.7 million for the year ended 31 December 2017, which was mainly driven by growth of advertising and marketing expenses by GEL 10.7 million, or 59.6%, in the year ended 31 December 2018 as compared to 2017, reflecting growth in the business. Professional services decreased by GEL 1.6 million, or 13.0%, to GEL 10.6 million for the year ended 31 December 2018, primarily due to a one-time cost in the amount of GEL 7.9 million related to the Bank Republic integration in 2017 that was not repeated in 2018. The all-encompassing growth was prompted by overall expansion of business scale, the higher performance-related bonuses paid to staff and management and the costs of mandatory insurance, which was introduced at the end of 2017.

Taxation

TBC reported income tax expense of GEL 71.4 million for the year ended 31 December 2018, compared to GEL 34.7 million for the year ended 31 December 2017.

The following table sets out certain information on TBC's income tax expense for the years indicated:

	For the year ended 31 December		
	2018	2017	Change
	(audited) (GEL thousands)		(%)
Current tax charge	51,500	39,225	31.3%
Deferred tax charge/(credit)	19,850	(4,563)	N/A
Income tax expense	**71,351**	**34,662**	**105.8%**

TBC's income tax expense increased by GEL 36.7 million, or 105.8%, to GEL 71.4 million for the year ended 31 December 2018 from GEL 34.7 million for the year ended 31 December 2017 primarily due to a GEL 17.4 million reversal in 2018 relating to a one-time GEL 17.9 million deferred tax gain recognised in 2016 due to changes in Georgian tax legislation relating to corporate income tax, resulting in an effective tax rate (calculated as income tax expense as a percentage of profit before tax) of 14.1% in 2018 (compared to 8.7% in 2017). As a result of certain differences between taxable income as defined under applicable Georgian legislation and income recorded according to IFRS, as well as the fact that certain revenues are exempt from income tax under Georgian legislation, TBC's effective tax rate under IFRS was lower than the 15% Georgian corporate tax rate generally applicable to TBC.

Profit

For the foregoing reasons, TBC's profit for the year increased by GEL 70.5 million, or 19.4%, to GEL 433.3 million for the year ended 31 December 2018 from GEL 362.8 million for the year ended 31 December 2017.

2018 segment analysis

The following table sets out information on the financial results of TBC's segments for the year ended 31 December 2018:

	Retail	Corporate	MSME	Corporate center and other operations	Total
			(audited) (GEL thousands)		
Interest income	609,989	264,559	255,833	152,832	**1,283,213**
Interest expense	(123,729)	(138,840)	(9,710)	(240,376)	**(512,655)**
Inter-segment interest income/(expense)	(78,453)	35,531	(83,475)	126,397	—
Net interest income	**407,807**	**161,250**	**162,648**	**38,853**	**770,558**
Fee and commission income	170,082	40,663	22,498	1,383	**234,626**
Fee and commission expense	(64,270)	(6,624)	(6,861)	(379)	**(78,134)**
Net fee and commission income	**105,812**	**34,039**	**15,637**	**1,004**	**156,492**
Net gains from trading in foreign currencies	28,811	44,633	22,002	(3,764)	**91,678**
Net gains from foreign exchange translation	—	—	—	15,503	**15,503**
Net losses from derivative financial instruments	(223)	—	—	20	**(204)**
Net losses from disposal of investment securities measured at fair value through other comprehensive income	—	—	—	2	**2**
Other operating income	8,658	19,691	748	1,809	**30,906**
Share of profit of associates	—	—	—	1,154	**1,154**
Other operating non-interest income	**37,246**	**64,320**	**22,750**	**14,723**	**139,039**
Credit loss allowance for loans to customers	(118,043)	(9,826)	(15,854)	—	**(143,723)**
Credit loss allowance for performance guarantees and credit related commitments	(412)	(2,826)	(248)	—	**(3,486)**
Credit loss allowance for investments in finance lease	—	—	—	(1,765)	**(1,765)**
Credit loss allowance for other financial assets	(3,959)	(8,634)	(2)	(3,851)	**(16,446)**
Credit loss allowance for financial assets measured at fair value through other comprehensive income	—	(95)	—	9	**(86)**
Profit before administrative and other expenses and income taxes	**428,451**	**238,228**	**184,931**	**48,973**	**900,583**
Staff costs	(127,299)	(29,145)	(42,669)	(13,356)	**(212,469)**
Depreciation and amortisation	(36,745)	(2,226)	(4,981)	(1,326)	**(45,278)**
Provision for liabilities and charges	—	—	—	(4,000)	**(4,000)**
Administrative and other operating expenses	(87,846)	(10,939)	(20,110)	(15,290)	**(134,185)**
Operating expenses	**(251,890)**	**(42,310)**	**(67,760)**	**(33,972)**	**(395,932)**
Profit before tax	**176,561**	**195,918**	**117,171**	**15,001**	**504,651**
Income tax expense	(22,898)	(29,907)	(17,249)	(1,297)	**(71,351)**
Profit for the year	**153,663**	**166,011**	**99,922**	**13,704**	**433,300**

In 2018, profit increased across each of TBC's segments. Profit for the year in the corporate segment increased by GEL 12.4 million (8.1%), from GEL 153.6 million in the year ended 31 December 2017 to GEL 166.0 million in the year ended 31 December 2018, driven primarily by the GEL 40.5 million increase in net interest income, GEL 10.5 million increase in net fee and commission income, GEL 5.7 million increase in gains less losses from trading in foreign currencies and GEL 6.2 million increase in other operating income. These increases were partially offset by a GEL 36.9 million increase in loans credit loss allowance and GEL 7.4 million increase in operating expenses.

Retail segment profit for the year increased by GEL 46.7 million (43.7%) from GEL 107.0 million in the year ended 31 December 2017 to GEL 153.7 million in the year ended 31 December 2018, mainly due to

the GEL 63.6 million increase in net interest income, a GEL 16.4 million increase in net fee and commission income and a GEL 2.0 million increase in other operating non-interest income. These increases were partially offset by a GEL 12.4 million increase in operating expenses and increases in credit loss allowances for loans, performance guarantees, credit related commitments and other financial assets of GEL 11.5 million, GEL 0.2 million and GEL 3.9 million, respectively.

Profit for the year in TBC's MSME segment increased from GEL 81.8 million in the year ended 31 December 2017 to GEL 99.9 million in the year ended 31 December 2018 as a result of the GEL 41.8 million increase in net interest income and a GEL 4.3 million increase in net fee and commission income. These increases were partially offset by an increase in operating expenses of GEL 16.4 million, GEL 4.9 million decrease in net gains from trading in a foreign currencies and a GEL 1.6 million increase in provisions for loans.

Results of Operations for the Years ended 31 December 2017 and 2016

Consolidated results of operations

The following table sets out the main components of TBC's consolidated statements of profit or loss and other comprehensive income for the years indicated:

	For the year ended 31 December		
	2017	**2016**	**Change**
	(audited) (GEL thousands)		(%)
Interest income	1,033,709	766,410	34.9%
Interest expense	(432,142)	(277,122)	55.9%
Net interest income	**601,567**	**489,288**	**22.9%**
Fee and commission income	192,752	142,802	35.0%
Fee and commission expense	(67,951)	(52,110)	30.4%
Net fee and commission income	**124,801**	**90,692**	**37.6%**
Net gains from trading in foreign currencies	87,099	70,159	24.1%
Net gains/(losses) from foreign exchange translation	4,595	(2,528)	N/A
Net losses from derivative financial instruments	(36)	(206)	(82.5)%
Net gains from disposal of available for sale investment securities	93	9,293	(99.0)%
Other operating income	31,511	23,214	35.7%
Share of profit of associates	909	—	N/A
Other operating non-interest income	**124,171**	**99,932**	**24.3%**
Credit loss allowance for loan to customers	(93,823)	(49,202)	90.7%
Credit loss allowance for investments in finance lease	(492)	(558)	(11.8)%
Credit loss allowance for performance guarantees and credit related commitments	390	(771)	N/A
Credit loss allowance for other financial assets	(12,212)	(2,569)	N/A
Impairment of investment securities available for sale	—	(11)	N/A
Operating income after provisions for impairment	**744,402**	**626,801**	**18.8%**
Staff costs	(196,826)	(171,304)	14.9%
Depreciation and amortisation	(36,882)	(27,980)	31.8%
Provision for liabilities and charges	2,495	(2,210)	N/A
Administrative and other operating expenses	(115,746)	(108,201)	7.0%
Operating expenses	**(346,959)**	**(309,695)**	**12.0%**
Profit before tax	**397,443**	**317,106**	**25.3%**
Income tax expense	(34,662)	(17,421)	99.0%
Profit for the year	**362,781**	**299,685**	**21.1%**

Interest income

The following table sets out the principal components of TBC's interest income for the years indicated:

	For the year ended 31 December		
	2017	2016	Change
	(audited) (GEL thousands)		(%)
Loans and advances to customers	919,796	688,756	33.5%
Bonds carried at amortised cost	32,328	30,714	5.3%
Investment securities available for sale	43,735	25,707	70.1%
Due from other banks	14,577	4,502	N/A
Other interest income:			
Investments in leases	23,273	16,566	40.5%
Other	—	165	N/A
Total interest income	**1,033,709**	**766,410**	**34.9%**

Total interest income increased by GEL 267.3 million, or 34.9%, to GEL 1,033.7 million for the year ended 31 December 2017 from GEL 766.4 million for the year ended 31 December 2016, mainly due to increased interest income from loans to customers. Interest income from loans to customers increased by GEL 231.0 million, or 33.5%, to GEL 919.8 million for the year ended 31 December 2017 from GEL 688.8 million for the year ended 31 December 2016, of which GEL 152.0 million, or 15.1%, of total loans and advances to customers, was contributed by Bank Republic following its acquisition by TBC in 2017. This growth also reflected an increase in the size of TBC's gross loan portfolio, which increased by 16.2% in 2017 compared to 2016, which more than offset a decline in loan yields over the same period from 13.4% to 12.1%, aligned with declining interest rates in Georgia generally. See "*Selected Statistical and Other Information—Loan Portfolio*".

In 2016, interest income included a one-time gain of GEL 9.6 million from the recovery of previously written-off loan interest from a large borrower in the fourth quarter of 2016 as well as one-time interest income related to a corporate customer amounting to GEL 4.2 million in the third quarter of 2016; excluding these one-time gains, total interest income would have increased by GEL 281.1 million, or 37.4%, as of 31 December 2017.

Interest income from investment securities available for sale increased by GEL 18.0 million, or 70.1%, to GEL 43.7 million for the year ended 31 December 2017 from GEL 25.7 million for the year ended 31 December 2016, mainly due to significant increases in the respective portfolios.

Interest income from other banks increased by GEL 10.1 million, to GEL 14.6 million for the year ended 31 December 2017 from GEL 4.5 million for the year ended 31 December 2016. This increase was driven primarily by an increase in the size of the respective average portfolio as well as the increased yields on such placements. Interest income from investment in leases increased by GEL 6.7 million to GEL 23.3 million for the year ended 31 December 2017 from GEL 16.6 million for the year ended 31 December 2016. This increase was driven by significant growth in TBC's portfolio of investment in leases. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates on TBC's interest-earning Lari and foreign currency assets for the years indicated:

	For the year ended 31 December							
	2017				2016			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(unaudited) (%)							
Loans and advances to customers	16.9%	9.0%	8.5%	24.9%	19.0%	10.3%	8.2%	27.1%
Bonds carried at amortised cost	8.0%	—	—	—	8.5%	—	—	—
Investment securities available for sale	7.5%	—	—	—	8.6%	18.7%	—	—
Due from other banks	12.6%	1.4%	(2.4)%	(0.2)%	5.1%	1.1%	(0.4)%	—
Investments in leases	32.6%	19.9%	28.0%	—	29.8%	19.7%	—	—
Total interest income	**15.0%**	**8.4%**	**6.7%**	**18.8%**	**15.9%**	**10.3%**	**2.9%**	**10.4%**

Note:

* Average interest rates are calculated as interest income by currency divided by the monthly average of the respective balances.

In the year ended 31 December 2017, currency blended average interest rates on loans to customers decreased to 12.1% from 13.4% in 2016, primarily due to the decrease in average interest rates on Lari-denominated loans to customers, and decrease in rates of foreign currency-denominated loans, broadly aligned with the general market trend of declining interest rates.

The decrease in average interest rates on Lari-denominated investment securities available in the year ended 31 December 2017 compared to the year ended 31 December 2016, was primarily due to the then general market trend of declining interest rates on these securities.

Interest expense

The following table sets out the principal components of TBC's interest expense, for the years indicated:

	For the year ended 31 December		
	2017	2016	Change
	(audited) (GEL thousands)		(%)
Customer accounts	234,969	154,840	51.7%
Due to credit institutions	158,255	86,179	83.6%
Subordinated debt	36,975	34,325	7.7%
Debt securities in issue	1,943	1,778	9.3%
Total interest expense	**432,142**	**277,122**	**55.9%**

Total interest expense increased by GEL 155.0 million, or 55.9%, to GEL 432.1 million for the year ended 31 December 2017 from GEL 277.1 million for the year ended 31 December 2016, mainly as a result of increases in interest expenses on customer accounts and amounts due to credit institutions.

Interest expense on customer accounts increased by GEL 80.1 million, or 51.7%, to GEL 235.0 million for the year ended 31 December 2017 from GEL 154.8 million for the year ended 31 December 2017, primarily due to the higher cost of client deposits at 3.5% (2016: 3.3%), which resulted from the general market trend of increasing interest rates on deposits in Georgia. The increase in the cost of client deposits was followed by a 21.4% increase in the average customer deposit portfolio. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on amounts due to credit institutions increased by GEL 72.1 million, or 83.6%, to GEL 158.3 million for the year ended 31 December 2017 from GEL 86.2 million for the year ended 31 December 2016, mainly due to an increase in the balance of the amounts due to credit institutions in 2017. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Interest expense on subordinated debt increased by GEL 2.7 million, or 7.7%, to GEL 37.0 million for the year ended 31 December 2017 from GEL 34.3 million for the year ended 31 December 2016, mainly due to increases in the balance of subordinated debt outstanding in 2017. In 2016, interest expense on subordinated debt included a one-time expense of GEL 2.5 million related to the prepayment of costly subordinated loans; excluding this one-time item, interest expense on subordinated debt would have increased by GEL 5.1 million, or 16.0%, as of 31 December 2017. See "*Selected Statistical and Other Information—Average Balances and Rates*".

The following table sets out the average interest rates paid by TBC on its Lari and foreign currency-denominated interest-bearing liabilities for the years indicated:

	For the year ended							
	2017				2016			
	GEL	U.S.$	Euro	Other	GEL	U.S.$	Euro	Other
	(unaudited) (%)							
Customer accounts	5.9%	2.6%	1.4%	3.1%	4.9%	3.0%	2.1%	3.6%
Due to credit institutions and debt securities in issue[(1)]	8.0%	5.2%	10.4%	37.5%	9.3%	5.6%	3.7%	8.1%
Subordinated debt	7.8%	9.6%	—	—	8.0%	11.3%	—	—
Total interest expense	**6.7%**	**3.6%**	**1.9%**	**3.4%**	**6.2%**	**4.1%**	**2.1%**	**3.7%**

Notes:

* Average interest rates are calculated as interest expense by currency divided by the monthly average of the respective balances.

(1) Due to credit institutions includes amounts due to other banks, other borrowed funds and debt securities in issue.

The increases on average interest rates on Lari-denominated customer accounts reflected a general market increase in interest rates for such funds, as well as an increase in the interest rates offered by TBC in response to market competition in 2016.

Fees and commissions

Fee and commission income

The following table sets out certain information on TBC's fee and commission income for the years indicated:

	For the year ended 31 December		
	2017	2016	Change
	(audited) (GEL thousands)		(%)
Fee and commission income (*Fee and commission income in respect of financial instruments not at fair value through profit or loss*):			
Card operations	82,525	61,115	35.0%
Settlement transactions	59,730	43,436	37.5%
Guarantees issued	15,121	11,699	29.3%
Cash transactions	17,424	13,013	33.9%
Issuance of letters of credit	5,735	6,215	(7.7)%
Foreign exchange operations	1,339	1,277	4.9%
Other	10,878	6,047	79.9%
Total fee and commission income	**192,752**	**142,802**	**35.0%**

Fee and commission income increased by GEL 50.0 million, or 35.0%, to GEL 192.8 million for the year ended 31 December 2017 from GEL 142.8 million for the year ended 31 December 2016, primarily as a result of increases from card operations, settlement transactions and guarantees, driven by the growing scale of the business.

Fee and commission expense

The following table sets out information on TBC's fee and commission expense for the years indicated:

	For the year ended 31 December		
	2017	**2016**	**Change**
	(audited) (GEL thousands)		**(%)**
Fee and commission expense (*Fee and commission expense in respect of financial instruments not at fair value through profit or loss*):			
Card operations	46,360	34,906	32.8%
Settlement transactions	7,400	5,795	27.7%
Cash transactions	4,393	2,633	66.8%
Guarantees received	2,873	2,420	18.7%
Self-service and POS terminal transactions	6,436	4,692	37.2%
Other	489	1,664	(70.6)%
Total fee and commission expense	**67,951**	**52,110**	**30.4%**

Fee and commission expense increased by GEL 15.8 million, or 30.4%, to GEL 68.0 million for the year ended 31 December 2017 from GEL 52.1 million for the year ended 31 December 2016, primarily as a result of the increase in fees and commissions from card operations, cash transactions, guarantees received, settlement transactions, reflecting the increase in the overall scale of TBC's operations in 2017 compared to 2016.

Other operating non-interest income

The following table sets out certain information on TBC's other operating non-interest income and expense items for the years indicated:

	For the year ended 31 December		
	2017	**2016**	**Change**
	(audited) (GEL thousands)		**(%)**
Gains less losses from trading in foreign currencies and foreign exchange translations	91,694	67,631	35.6%
Gains less losses/(losses less gains) from derivative financial instruments	(36)	(206)	(82.5)%
Net gains from disposal of available for sale investment securities	93	9,293	(99.0)%
Share of profit of associates	909	—	N/A
Other operating income:			
Gain from sale of investment properties	4,353	2,623	66.0%
Revenues from operational leasing	6,559	5,772	13.6%
Gain from sale of inventories of repossessed collateral	2,383	2,382	—
Revenues from sale of cash-in terminals	1,093	1,100	(0.6)%
Revenues from non-credit related fines	1,333	644	N/A
Gain on disposal of premises and equipment	1,017	208	N/A
Gain from sale of receivables	4,090	58	N/A
Reimbursement of taxes	2,486	349	N/A
Gain from marketing promotional services	2,077	—	N/A
Dividend income	—	823	N/A
Recovery from repayment of purchased impaired loans	—	4,995	N/A
Administrative fee income from international financial institutions	—	644	N/A
Other	6,120	3,616	69.2%
Total other operating income	**31,511**	**23,214**	**35.7%**
Total other operating non-interest income	**124,171**	**99,932**	**24.3%**

Total other operating non-interest income increased by GEL 24.2 million, or 24.3%, to GEL 124.2 million for the year ended 31 December 2017 from GEL 99.9 million for the year ended 31 December 2016. This increase was mainly driven by the GEL 24.2 million increase in gains from trading in foreign currencies

and foreign exchange translations related to increased volumes of currency exchange operations and the increased margins on such operations, partially driven by the currency exchange rate volatility in the last quarter of 2017, as well as reflecting increased trade volume and increases reflecting the Bank Republic acquisition in 2017. The growth in total other operating non-interest income was also supported by a GEL 4.0 million increase in gain from the sale of receivables in 2017, that includes the fair value adjustment of the previously acquired Bank Republic portfolio amounting to GEL 2.9 million, due to a better than expected performance; reimbursed taxes in the amount of GEL 2.5 million; and a GEL 2.1 million gain from marketing and promotional services related to an expense sharing programme by TBC's partner technology companies. These increases were partially offset by a one-time drop of GEL 8.8 million in net gains less losses from disposal of investment securities available for sale due to a one-time gain from sale of investment security in 2016.

Provision charges for impairment

The following table sets out certain information on TBC's provision charges for impairment for the years indicated:

	For the year ended 31 December		
	2017	2016	Change
	(audited) (GEL thousands)		(%)
Provision for loan impairment	(93,823)	(49,202)	90.7%
Provision for impairment of investments in finance lease	(492)	(558)	(11.8)%
Provision for performance guarantees and credit related commitments	390	(771)	N/A
Provision for impairment of other financial assets	(12,212)	(2,569)	N/A
Impairment of investment securities available for sale	—	(11)	N/A
Total provision charges for impairment	**(106,137)**	**(53,111)**	**(99.8)%**
Non-performing Loan ratio	3.3%	3.5%	
Non-performing Loan coverage ratio	81.8%	88.4%	
Cost of risk	1.2%	1.0%	

For the year ended 31 December 2017, TBC's total provision charges for impairment increased by GEL 53.0 million, or 99.8%, to GEL 106,137 million from GEL 53.1 million for the year ended 31 December 2016. The increase in provision charges was driven by increases in provisions for loan impairment, partially offset by decreases in provision for performance guarantees and credit related commitments.

For the year ended 31 December 2017, TBC's provision for loan impairment increased by GEL 44.6 million, or 90.7%, to GEL 93.8 million from GEL 49.2 million for the year ended 31 December 2016. The increase was driven by the increased charges on loans due to portfolio growth in 2017 and the depreciation of the Lari against the U.S. dollar (59.7% of TBC's gross loan book in 2017 was denominated in foreign currency, of which U.S. dollar-denominated loans represented 55.5%).

In 2016, provision charges were decreased by a one-time recovery of previously written-off principal (GEL 26.2 million); however, this decrease was off-set by a one-time currency devaluation effect on provisions (GEL 9.6 million), which had positive net-effect of GEL 16.6 million. Excluding these one-time items, total provision charges for impairment would have increased by GEL 36.4 million, or 52.2%.

Provision for impairment of performance guarantees and credit related commitments decreased by GEL 1.2 million, to a loss of GEL 0.4 million for the year ended 31 December 2017, from a provision of GEL 0.8 million for the year ended 31 December 2016 due to the transfer of guarantees into loans and the reduction of provision levels on certain guarantees due to the improvement in their financial standing in 2017.

Operating expenses

	For the year ended 31 December		
	2017	2016	Change
	(audited) (GEL thousands)		(%)
Staff costs	196,826	171,304	14.9%
Depreciation and amortization	36,882	27,980	31.8%
Provision for liabilities and charges	(2,495)	2,210	N/A
Administrative and other operating expenses:			
Advertising and marketing services	18,021	13,784	30.7%
Rent	22,700	18,233	24.5%
Intangible asset enhancement	10,304	7,446	38.4%
Professional services	12,162	29,030	(58.1)%
Insurance	3,270	2,686	21.7%
Taxes other than on income	5,607	4,699	19.3%
Utility services	6,057	5,104	18.7%
Premises and equipment maintenance	5,253	3,880	35.4%
Communications and supply	4,063	4,183	(2.9)%
Stationery and other office expenses	4,737	3,429	38.1%
Security services	1,965	1,883	4.4%
Business trip expenses	1,897	1,880	0.9%
Transportation and vehicle maintenance	1,637	1,386	18.1%
Personnel training and recruitment	1,444	1,272	13.5%
Charity	1,045	884	18.2%
Loss on disposal of premises and equipment	492	423	16.3%
Loss on disposal of inventories	1,239	1,690	(26.7)%
Impairment of intangible assets	1,916	2,043	(6.2)%
Reversal of previously written-down current assets to fair value less costs to sell	(538)	(4,424)	(87.8)%
Other	12,475	8,690	43.6%
Total administrative and other operating expenses	**115,746**	**108,201**	**7.0%**
Total operating expenses	**346,959**	**309,695**	**12.0%**

Total operating expenses increased by GEL 37.3 million, or 12.0% to GEL 347.0 million for the year ended 31 December 2017 from GEL 310.0 million for the year ended 31 December 2016, primarily due to staff costs and depreciation and amortization expense. In 2016, the one-time costs related to the premium listing and the Bank Republic integration amounted to GEL 16.2 million and GEL 12.2 million, respectively. In 2017, one-time costs were related to the Bank Republic integration and totalled GEL 10.9 million. Out of the total operating expenses, Bank Republic contributions were GEL 60.8 million and GEL 15.3 million as at 31 December 2017 and 31 December 2016 respectively. Excluding these one-time costs, and the Bank Republic contribution, total operating expenses would have increased by GEL 9.3 million, or 3.5%, as of 31 December 2017.

Staff costs increased by GEL 25.5 million, or 14.9%, to GEL 196.8 million for the year ended 31 December 2017, from GEL 171.3 million for the year ended 31 December 2016. The acquisition of Bank Republic in 2017 resulted in a GEL 35.2 million increase, which was partially offset by reductions in TBC's other staff costs.

Depreciation and amortisation expenses increased by GEL 8.9 million, or 31.8%, to GEL 36.9 million for the year ended 31 December 2017, from GEL 28.0 million for the year ended 31 December 2016. This was partially driven by the additional GEL 4.5 million contribution from Bank Republic following its acquisition in 2017.

Administrative and other operating expenses increased by GEL 7.5 million, or 7.0%, to GEL 115.7 million for the year ended 31 December 2017, from GEL 108.2 million for the year ended 31 December 2016. This increase was driven by increases in most expense categories, primarily in expenses relating to advertising and marketing services and rent. Professional services decreased by GEL 16.9 million, or 58.1%, to

GEL 12.2 million for the year ended 31 December 2017, from GEL 29.0 million for the year ended 31 December 2016, primarily reflecting one-time costs incurred in 2016 related to the premium listing and the integration of Bank Republic in the amount of GEL 16.2 million.

Advertising and marketing expenses increased by GEL 4.2 million, or 30.7%, to GEL 18.0 million for the year ended 31 December 2017, from GEL 13.8 million for the year ended 31 December 2016, primarily due to increased promotional activities undertaken by TBC.

Taxation

TBC reported income tax expense of GEL 34.7 million for the year ended 31 December 2017, compared to GEL 17.4 million for the year ended 31 December 2016.

The following table sets out certain information on TBC's income tax expense for the years indicated:

	For the year ended 31 December		
	2017	**2016**	**Change**
	(audited) (GEL thousands)		(%)
Current tax charge	39,225	36,601	7.2%
Deferred tax charge/(credit)	(4,563)	(19,180)	(76.2)%
Income tax expense	**34,662**	**17,421**	**99.0%**

TBC's income tax expense increased by GEL 17.2 million, or 99.0%, to GEL 34.7 million for the year ended 31 December 2017 from GEL 17.4 million for the year ended 31 December 2016 as a result of increased profits in 2017 and a one-time deferred tax gain recognised in 2016 due to changes in Georgian tax legislation, amounting to GEL 17.9 million.

Profit

For the foregoing reasons, TBC's profit for the year increased by GEL 63.1 million, or 21.1%, to GEL 362.8 million for the year ended 31 December 2017 from GEL 299.7 million for the year ended 31 December 2016.

Segment analysis

The following tables set out information on the financial results of TBC's segments for the years ended 31 December 2017 and 2016:

	Retail	Corporate	MSME	Corporate center and other operations	Total
			(audited) (GEL thousands)		
Interest income	535,851	203,082	184,008	110,768	**1,033,709**
Interest expense	(118,516)	(104,792)	(11,661)	(197,173)	**(432,142)**
Inter-segment interest income/(expense)	(73,141)	22,489	(51,488)	102,140	**—**
Net interest income	**344,194**	**120,779**	**120,859**	**15,735**	**601,567**
Fee and commission income	140,582	30,426	20,335	1,409	**192,752**
Fee and commission expense	(51,199)	(6,910)	(8,949)	(893)	**(67,951)**
Net fee and commission income	**89,383**	**23,516**	**11,386**	**516**	**124,801**
Net gains from trading in foreign currencies	22,597	38,885	26,885	(1,268)	**87,099**
Net gains from foreign exchange translation	—	—	—	4,595	**4,595**
Net losses from derivative financial instruments	—	—	—	(36)	**(36)**
Net gains from disposal of available for sale investment securities	—	—	—	93	**93**
Other operating income	12,670	13,465	1,726	3,650	**31,511**
Share of profit of associates	—	—	—	909	**909**
Other operating non-interest income	**35,267**	**52,350**	**28,611**	**7,943**	**124,171**
Provision for loan impairment	(106,579)	27,031	(14,275)	—	**(93,823)**
Provision for performance guarantees and credit related commitments	(261)	184	467	—	**390**
Provision for impairment of investments in finance lease	—	—	—	(492)	**(492)**
Provision for impairment of other financial assets	(17)	(7,666)	(64)	(4,465)	**(12,212)**
Profit before administrative and other expenses and income taxes	**361,987**	**216,194**	**146,984**	**19,237**	**744,402**
Staff costs	(128,331)	(25,989)	(31,225)	(11,281)	**(196,826)**
Depreciation and amortisation	(29,813)	(1,438)	(4,972)	(659)	**(36,882)**
Provision for liabilities and charges	—	—	—	2,495	**2,495**
Administrative and other operating expenses	(81,356)	(7,457)	(15,118)	(11,815)	**(115,746)**
Operating expenses	**(239,500)**	**(34,884)**	**(51,315)**	**(21,260)**	**(346,959)**
Profit before tax	**122,487**	**181,310**	**95,669**	**(2,023)**	**397,443**
Income tax expense	(15,527)	(27,738)	(13,820)	22,423	**(34,662)**
Profit for the year	**106,960**	**153,572**	**81,849**	**20,400**	**362,781**

	Retail	Corporate	MSME	Corporate center and other operations	Total
			(audited) (GEL thousands)		
Interest income	386,193	161,030	141,533	77,654	**766,410**
Interest expense	(101,521)	(45,205)	(8,114)	(122,282)	**(277,122)**
Inter-segment interest income/(expense)	(34,056)	(22,186)	(36,752)	92,994	**—**
Net interest income	**250,616**	**93,639**	**96,667**	**48,366**	**489,288**
Fee and commission income	100,637	21,884	16,331	3,950	**142,802**
Fee and commission expense	(42,905)	(3,977)	(4,689)	(539)	**(52,110)**
Net fee and commission income	**57,732**	**17,907**	**11,642**	**3,411**	**90,692**
Net gains from trading in foreign currencies	17,817	23,945	26,271	2,126	**70,159**
Net losses from foreign exchange translation	—	—	—	(2,528)	**(2,528)**
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	5,772	9,837	1,076	6,529	**23,214**
Other operating non-interest income	**23,589**	**33,782**	**27,347**	**15,214**	**99,932**
Provision for loan impairment	(73,010)	48,948	(25,140)	—	**(49,202)**
Provision for performance guarantees and credit related commitments	(902)	(388)	519	—	**(771)**
Provision for impairment of investments in finance lease	—	—	—	(558)	**(558)**
Provision for impairment of other financial assets	(207)	(863)	(38)	(1,461)	**(2,569)**
Impairment of investment securities available for sale	—	—	(11)	—	**(11)**
Profit before administrative and other expenses and income taxes	**257,818**	**193,025**	**110,986**	**64,972**	**626,801**
Staff costs	(100,888)	(23,068)	(28,188)	(19,160)	**(171,304)**
Depreciation and amortisation	(21,560)	(1,062)	(3,507)	(1,851)	**(27,980)**
Provision for liabilities and charges	—	—	—	(2,210)	**(2,210)**
Administrative and other operating expenses	(59,365)	(5,944)	(12,793)	(30,099)	**(108,201)**
Operating expenses	**(181,813)**	**(30,074)**	**(44,488)**	**(53,320)**	**(309,695)**
Profit before tax	**76,005**	**162,951**	**66,498**	**11,652**	**317,106**
Income tax expense	(7,406)	(24,513)	(10,325)	24,823	**(17,421)**
Profit for the year	**68,599**	**138,438**	**56,173**	**36,475**	**299,685**

Profit for the year in the corporate segment increased by GEL 15.1 million (10.9%), from GEL 138.4 million in the year ended 31 December 2016 to GEL 153.6 million in the year ended 31 December 2017, driven primarily by a GEL 27.1 million increase in net interest income, a GEL 14.9 million increase in gains from trading in foreign currencies, a GEL 5.6 million increase in net fee and commission income and a GEL 6.8 million reversal of provision for other financial assets, partially offset by a GEL 21.9 million increase in provision for loan impairment. Retail segment profit for the year increased by GEL 38.4 million (55.9%) from GEL 68.6 million in the year ended 31 December 2016 to GEL 107.0 million in the year ended 31 December 2017, mainly due to a GEL 93.6 million increase in net interest income, which was partially offset by a GEL 33.6 million increase in provision for loans and a GEL 57.7 million increase in operating expenses. MSME segment profit for the year increased by GEL 25.7 million (45.7%) from GEL 56.2 million in the year ended 31 December 2016 to GEL 81.8 million in the year ended 31 December 2017, driven by increases in net interest income (GEL 24.2 million), gains less losses from trading in foreign currencies (GEL 0.6 million) and decrease in provision for loan impairment (GEL 10.9 million), partially offset by a GEL 6.8 million increase in operating expenses.

For a detailed segment analysis, see Note 27 to the Audited Consolidated Financial Statements.

Analysis of Consolidated Financial Position

The following table sets out TBC's consolidated statements of financial position as at the dates indicated:

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		(audited)	
		(GEL thousands)		
Assets				
Cash and cash equivalents	921,918	1,164,403	1,428,771	944,767
Due from other banks	22,112	37,384	37,789	23,824
Mandatory cash balances with the NBG	1,416,082	1,422,809	1,033,818	990,642
Loans and advances to customers	10,029,320	10,038,452	8,325,353	7,133,702
Investment securities measured at fair value through other comprehensive income(1)	836,482	1,005,239	—	—
Investment securities available for sale(1)	—	—	657,938	430,703
Bonds carried at amortised cost	624,021	653,703	449,538	372,956
Investments in finance leases	208,243	203,802	143,836	95,031
Investment properties	84,055	84,296	79,232	95,615
Current income tax prepayment	11,088	2,159	19,084	7,429
Deferred income tax asset	1,868	1,992	2,605	3,265
Other financial assets	110,228	154,259	134,135	91,895
Other assets	193,344	177,923	147,792	170,756
Premises and equipment	364,457	366,071	366,065	313,584
Intangible assets	118,681	108,505	83,072	60,698
Goodwill	29,459	29,459	26,892	26,892
Investments in subsidiaries and associates	2,601	2,432	1,278	—
Repurchase receivables	89,768	—	—	—
Right of use assets	58,452	—	—	—
Total assets	**15,122,179**	**15,452,888**	**12,937,198**	**10,761,759**
Liabilities				
Due to credit institutions	2,692,585	3,031,505	2,644,714	2,199,976
Customer accounts	9,294,456	9,444,746	7,835,323	6,461,582
Other financial liabilities	150,598	78,205	79,774	50,153
Current income tax liability	37	63	447	2,579
Debt securities in issue	13,415	13,343	20,695	23,508
Deferred income tax liability	19,337	22,237	602	5,646
Provisions for liabilities and charges	13,376	13,817	10,306	15,294
Other liabilities	56,019	86,296	70,187	62,851
Subordinated debt	664,330	650,919	426,788	368,381
Total liabilities	**12,904,153**	**13,341,131**	**11,088,836**	**9,189,970**
Equity				
Share capital	21,014	21,014	21,014	20,617
Share premium	521,190	521,190	521,190	504,161
Retained earnings	1,676,122	1,543,581	1,244,206	960,060
Share based payment reserve	(59,932)	(33,591)	(7,272)	23,327
Revaluation reserve for premises	56,608	57,153	70,038	70,460
Fair value reserve	9,800	8,775	—	—
Revaluation reserve for available-for-sale securities	—	—	1,809	(3,681)
Cumulative currency translation reserve	(7,291)	(6,933)	(7,358)	(7,538)
Net assets attributable to owners	**2,217,511**	**2,111,189**	**1,843,627**	**1,567,406**
Non-controlling interest	**515**	**568**	**4,735**	**4,383**
Total equity	**2,218,026**	**2,111,757**	**1,848,362**	**1,571,789**
Total liabilities and equity	**15,122,179**	**15,452,888**	**12,937,198**	**10,761,759**

Notes:

(1) Following the adoption by TBC of IFRS 9 "Financial Instruments" as of 1 January 2018, "Investment securities available for sale" was renamed "Investment securities measured at fair value through other comprehensive income".

Total assets

TBC had total assets of GEL 15,122.1 million as at 31 March 2019, as compared to total assets of GEL 15,452.9 million as at 31 December 2018. This 2.1% decrease was primarily due to the GEL 242.5 million (20.8%) decrease in cash and cash equivalents to GEL 921.9 million, compared to GEL 1,164.4 million as at 31 December 2018 resulting from mainly due to high liquidity and increased placements of deposits in other banks. The decrease also resulted from a GEL 168.8 million, or 16.8%, decline in investment securities measured at fair value through other comprehensive income as a result of a reduction in the issuance of certificates of the NBG and Ministry of Finance treasury bills and the redemption of such certificates and treasury bills in the first quarter of 2019, as well as the repayment of bonds issued by the government of The Netherlands.

TBC had total assets of GEL 15,452.9 million as at 31 December 2018, as compared to total assets of GEL 12,937.2 million as at 31 December 2017. This 19.4% increase was primarily due to the GEL 1,713.1 million (20.6%) increase in net loans to customers, the GEL 204.2 million increase in bonds carried at amortised cost, the GEL 347.1 million (52.8%) increase in investment securities measured at fair value through other comprehensive income, were partially offset by the GEL 264.4 million (18.5%) decrease in cash and cash equivalents and the GEL 16.9 million (88.7%) decrease in current income tax prepayment. The increase in loans and advances to customers was driven mainly by growth in retail and corporate net portfolios, along with the growth in the MSME segment.

As at 31 December 2017, TBC had total assets of GEL 12,937.2 million, as compared to total assets of GEL 10,761.8 million as at 31 December 2016. The GEL 2,175.4 million (20.2%) increase was primarily driven by the GEL 1,191.7 million (16.7%) increase in net loans and advances to customers, the GEL 484.0 million (51.2%) increase in cash and cash equivalents, the GEL 14.0 million (58.6%) increase in due from other banks, the GEL 43.2 million (4.4%) increase in mandatory cash balances with the NBG, the GEL 48.8 million (51.4%) increase in investment in finance leases, the GEL 227.2 million (52.8%) increase in investment securities available for sale, the GEL 22.4 million (36.9%) increase in intangible assets and the GEL 52.5 million (16.7%) increase in premises and equipment. These increases were partially offset by the GEL 16.4 million (17.1%) decrease in investment properties and the GEL 23.0 million (13.4%) decrease in other assets. The increase in loans and advances to customers was driven mainly by growth in retail and corporate net portfolios, along with the growth in the MSME segment. The increase in cash and cash equivalents and due from other banks was driven mainly by an increase in customer deposits. Mandatory cash balances with the NBG increased during 2017 as a result of an increase in TBC Bank's customer accounts portfolio. The increase in investment in finance leases was driven mainly by an increase in leasing activities in 2017. The increase in intangible assets was driven mainly by the procurement of various licences. The increase in premises and equipment was driven mainly by the purchase of computer equipment in 2017.

See "*Selected Statistical and Other Information—Loan Portfolio", "—Amounts due from Other Banks and Mandatory Cash Balances with the NBG*" and "*—Investment Securities Measured at Fair Value through Other Comprehensive Income".*

Total liabilities

As at 31 March 2019, TBC had total liabilities of GEL 12,904.2 million as compared to total liabilities of GEL 13,341.1 million as at 31 December 2018. The GEL 437.0 million (3.3%) decrease was primarily due to the reduced retail deposits (mostly in January and February) prior to the settlement of the dispute with the NBG (see "*Risk Factors—Risks Relating to TBC—TBC has been subject to scrutiny by the NBG and remains subject to an ongoing investigation by the Georgian Office of Public Prosecution relating to certain historic transactions*"), but also reflected the effects of seasonality. The decrease in total liabilities was also due to a decline in amounts due to credit institutions by GEL 339.0 million, or 11.2%, mainly resulting from a decrease in short-term borrowings.

As at 31 December 2018, TBC had total liabilities of GEL 13,341.1 million as compared to total liabilities of GEL 11,088.8 million as at 31 December 2017. The GEL 2,252.2 million (20.3%) increase was mainly due to the GEL 1,609.4 million (20.5%) increase in customer accounts, which was primarily the result of an increase in corporate deposits and the GEL 386.8 million (14.6%) increase in due to credit institutions resulting from the borrowings attracted from IFIs as well as an increase in short-term GEL borrowing from NBG consistence with TBC's liquidity management policy.

As at 31 December 2017, TBC had total liabilities of GEL 11,088.8 million, as compared to GEL 9,190.0 million as at 31 December 2016. The GEL 1,898.9 million (20.7%) increase in total liabilities from 31 December 2016 to 31 December 2017 was primarily due to the GEL 444.7 million (20.2%) increases in due to credit institutions, the GEL 1,373.7 million (21.3%) increase in customer accounts, the GEL 29.6 million (59.1%) increase in other financial liabilities and the GEL 58.4 million (15.9%) increase in subordinated debt. The increase in customer accounts was driven by increases in retail, corporate and MSME deposits. The increase in other financial liabilities was primarily due to increases in trade payables and debit or credit card payables driven by an increase in the scale of credit card operations, as well as an increase in advances received for the purchase of leasing assets. The increase in subordinated debt is due to the depreciation of the Lari against the U.S. dollar.

See "*Selected Statistical and Other Information—Funding Sources*".

Total equity

As at 31 March 2019, TBC had total equity of GEL 2,218.0 million, as compared to total equity of GEL 2,111.8 million as at 31 December 2018. The GEL 106.2 million (5.0%) increase in total equity was primarily due to the GEL 132.5 million increase in retained earnings to GEL 1,676.1 million as at 31 March 2019.

As at 31 December 2018, TBC had total equity of GEL 2,111.8 million, as compared to total equity of GEL 1,848.4 million as at 31 December 2017. The GEL 263.4 million (14.3%) increase in total equity was primarily due to a GEL 299.4 million increase in retained earnings to GEL 1,543.6 million as at 31 December 2018, which was offset by a GEL 12.9 million decrease in the revaluation reserve for premises to GEL 57.2 million as at 31 December 2018. This decrease was primarily due to the revaluation of land and buildings owned by TBC Bank.

Total equity comprised GEL 1,848.4 million (14.3% of total assets) as at 31 December 2017 and GEL 1,571.8 million (14.6% of total assets) as at 31 December 2016. The 17.6% increase in total equity from 31 December 2016 to 31 December 2017 was primarily the result of an increase in share premium from GEL 504.2 million as at 31 December 2016 to GEL 521.2 million as at 31 December 2017, an increase in retained earnings from GEL 960.1 million as at 31 December 2016 to GEL 1,244.2 million as at 31 December 2017.

Liquidity and Capital Resources

Analysis of consolidated cash flows

The following table summarises TBC's selected consolidated statements of cash flows for the periods indicated:

	For the three months ended 31 March		For the year ended 31 December		
	2019	2018	2018	2017	2016
	(unaudited)		(audited)		
	(GEL thousands)				
Net cash from/(used in) operating activities	225,942	112,418	(5,244)	149,506	71,600
Net cash from/(used in) investing activities	76,443	83,598	(571,040)	(372,058)	(197,240)
Net cash (used in)/from financing activities	(548,358)	(328,378)	290,684	638,923	327,408
Effect of exchange rates on cash and cash equivalents	3,488	(52,727)	21,232	67,633	22,652
Net increase in cash and cash equivalents	(242,485)	(185,089)	(264,368)	(484,001)	(224,420)
Cash and cash equivalents at the end of the period	**921,918**	**1,243,682**	**1,164,403**	**1,428,771**	**944,767**

Net cash (used in)/from operating activities

Net cash from operating activities was GEL 225.9 million and GEL 112.4 million in the three months ended 31 March 2019 and 2018, respectively. The GEL 113.5 million increase in net cash from operating activities during the first quarter of 2019 compared to the same period in 2018 was primarily due to net changes in operating assets and liabilities between the two periods, particularly a significantly lower net increase in loans and advances to customers (GEL 14.2 million net increase in the first quarter of 2019 as

compared to GEL 254.4 million net increase in the first quarter of 2018), relatively higher net increase in amounts due to other banks (GEL 159.3 million net increase in the first quarter of 2019 as compared to GEL 27.6 million net increase in the first quarter of 2018). The effect of these changes was partially offset by a significant change in customer accounts in respective periods (GEL 161.3 million net decrease in the first quarter of 2019 as compared to a GEL 174.5 million net increase in the first quarter of 2018 reflecting, *inter alia*, retail deposit reductions prior to the settlement of the dispute with the NBG).

Net cash used in operating activities in the year ended 31 December 2018 was GEL 5.2 million, compared to net cash from operating activities of GEL 149.5 million and GEL 71.6 million in the years ended 31 December 2017 and 2016, respectively. It was primarily due to higher net increase in loans and advances to customers (GEL 1,718.4 million net increase in the year ended 31 December 2018 as compared to GEL 1,330.1 million net increase in the year ended 31 December 2017), higher net increase in amounts due from other banks and mandatory cash balances with the NBG (GEL 336.2 million increase in the year ended 31 December 2018 as compared to GEL 97.4 million increase in the year ended 31 December 2017), which was partially offset by significant change in amounts due to other banks (GEL 69.8 million net increase in the year ended 31 December 2018 as compared to GEL 228.5 million net decrease in the year ended 31 December 2017) and higher cash inflows in interest received (GEL 1,224.2 million in the year ended 31 December 2018 as compared to GEL 1,000.0 million in the year ended 31 December 2017). The GEL 77.9 million increase in net cash from operating activities from 2016 to 2017 was principally due to higher cash inflows in interest, as well as a net increase in customer accounts, which was partially offset by increased lending activities of TBC Bank.

Net cash used in investing activities

Net cash from investing activities was GEL 76.4 million and GEL 83.6 million in the three months ended 31 March 2019 and 2018, respectively. The GEL 7.2 million decrease in net cash from investing activities during the first quarter of 2019 compared to the same period in 2018 was principally driven by a GEL 36.1 million increase in net cash used in the acquisition of and redemption of bonds carried at amortised cost, and an increase of GEL 5.7 million in net cash used on acquisition and disposal of premises, equipment and intangible assets. These decreases were partially offset by a GEL 37.4 million increase in net cash from the acquisition, disposal and redemption of investment securities measured at fair value through other comprehensive income.

Net cash used in investing activities was GEL 571.0 million, GEL 372.1 million and GEL 197.2 million in the years ended 31 December 2018, 2017 and 2016, respectively. The GEL 198.9 million increase in net cash used in investing activities from 2017 to 2018 as well as the GEL 174.8 million increase from 2016 to 2017, was principally driven by increases in acquisition of investment securities measured at fair value through other comprehensive income reflecting TBC's increased appetite for investing in high quality liquid assets and earn income from such investments, and purchases of corporate bonds issued by IFIs and corporate issuers.

Net cash (used in)/from financing activities

Net cash used in financing activities was GEL 548.3 million in the three months ended 31 March 2019, compared to GEL 328.4 million in the same period in 2018. This GEL 220.0 million increase in net cash used during the first quarter of 2019 was principally driven by a GEL 377.8 million decrease in cash inflows from proceeds from other borrowed funds in the first quarter of 2019 compared to the same period in 2018, partially offset by a GEL 157.5 million decrease in cash outflows from the redemption of other borrowed funds in the first quarter of 2019 compared to the first quarter of 2018.

Net cash from financing activities was GEL 290.7 million in the year ended 31 December 2018, compared to net cash from financing activities of GEL 638.9 million and GEL 327.4 million in the years ended 31 December 2017 and 2016, respectively. The GEL 348.2 million decrease in from 2017 to 2018 was principally driven by the cash outflows from redemptions of other borrowed funds. The increase in cash flows from financing activities from 2016 to 2017 was the result of net cash inflow from other borrowed funds as well as net proceeds from subordinated debt.

Capital expenditure commitments

As at 31 March 2019, TBC's capital expenditure commitments comprised GEL14.3 million relating to the purchase of intangible assets. As at 31 December 2018, TBC had capital expenditure commitments of GEL 12.2 million relating to the procurement of IT software and certain office and computer equipment.

As at 31 December 2017, TBC had capital expenditure commitments of GEL 7.8 million relating to the purchase POS terminals and renovation. As at 31 December 2016, TBC's capital expenditure comprised the commitment for purchase of intangible assets of GEL 5.7 million.

Funding

TBC's principal source of funding has been customer accounts. For a discussion of TBC's funding sources, see "*Selected Statistical and Other Information—Funding Sources*".

Quantitative and Qualitative Disclosures about Market Risk

For a discussion of TBC's risk management framework and principal market risks, see "*Risk Management*".

Critical Accounting Estimates and Judgments

TBC's accounting policies are integral to understanding the financial condition and results of operations presented in the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements. The preparation of the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities over the next reporting period. These estimates and judgments are regularly evaluated and are based on Management's experience and other factors, including expectations of future events that are believed by it to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. For a discussion of TBC's critical accounting estimates and judgments in applying accounting policies, see Note 2 to the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements.

SELECTED STATISTICAL AND OTHER INFORMATION

The following discussion sets out information with respect to the assets, liabilities and equity of TBC, together with certain selected statistical information, ratios and other data that have been derived from the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements which appear elsewhere in this Prospectus, and from unaudited consolidated management accounts. The discussions and selected statistical information and other data set forth below should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Consolidated Interim Financial Statements, as well as the information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", all included elsewhere in this Prospectus.

Total Assets

TBC's total assets decreased by GEL 330.8 million, or 2.1%, to GEL 15,122.1 million as at 31 March 2019 from GEL 15,452.9 million as at 31 December 2018. TBC's total assets increased by GEL 2,515.7 million, or 19.4%, to GEL 15,452.9 million as at 31 December 2018 from GEL 12,937.2 million as at 31 December 2017, after having increased, in 2017, by GEL 2,175.4 million, or 20.2%, from GEL 10,761.8 million as at 31 December 2016. The increase as at 31 December 2018, compared to 2017, was mainly attributable to the increase in net loans and advances to customers by GEL 1,713.1 million, or 20.6%. As at 31 March 2019, loans and advances to customers (after provision for loan impairment) ("**net loans**") comprised 66.3% of TBC's total assets, compared to 65.0%, 64.4% and 66.3% as at 31 December 2018, 2017 and 2016, respectively. See "*—Loan Portfolio*".

Total Liabilities

TBC's total liabilities decreased by GEL 437.0 million, or 3.3%, to GEL 12,904.2 million as at 31 March 2019 from GEL 13,341.1 million as at 31 December 2018. TBC's total liabilities increased by GEL 2,252.3 million, or 20.3%, to GEL 13,341.1 million as at 31 December 2018 from GEL 11,088.8 million as at 31 December 2017, after having increased, in 2017, by GEL 1,898.9 million, or 20.7%, from GEL 9,190.0 million as at 31 December 2016. The increase as at 31 December 2018, compared to 2017, was mainly attributable to the increase in customer deposits by GEL 1,609.4 million, or 20.5%.

Average Balances and Rates

Unless otherwise indicated, the average balances included in this Prospectus, including average rates, cost of risk, spreads, margins, return on average total equity, return on average total assets and all ratios related to the individual retail, corporate, and MSME segments are calculated as the average of the relevant monthly balances as at each month end during the years ended 31 December 2018, 2017 and 2016 and during the quarters ended 31 March 2019 and 2018. Balances as at 31 December 2018, 2017 and 2016 have been derived from the Audited Consolidated Financial Statements. Balances as at the remaining month ends, in each case, have been derived from TBC's unaudited consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes. Calculation of average balances using different methods of calculation could result in material differences from the figures set forth below and elsewhere in this Prospectus. All average balances and rates included in this Prospectus are unaudited.

The following tables set out the average balances of TBC's interest-earning assets, the related interest income and average rates for the periods indicated:

	For the three months ended 31 March					
	2019			2018		
	Average balance[1]	Interest income	Average rate (%)[2]	Average balance[1]	Interest income	Average rate (%)[2]
	(unaudited) (GEL thousands, except percentages)					
Interest-earning assets						
Due from other banks[3]	1,276,841	5,516	1.8%	896,378	4,797	2.2%
GEL	14,142	2,702	77.5%	13,221	2,206	67.7%
Foreign currency	1,262,699	2,814	0.9%	883,157	2,591	1.2%
Gross loans to customers	10,311,255	292,055	11.5%	8,430,293	256,054	12.3%
GEL	4,121,035	167,630	16.5%	3,468,280	151,224	17.7%
Foreign currency	6,190,220	124,425	8.2%	4,962,013	104,830	8.6%
Investment securities measured at fair value through other comprehensive income and bonds carried at amortised cost	1,587,652	29,354	7.5%	1,066,231	21,205	8.1%
GEL	1,550,358	29,202	7.6%	1,061,191	20,895	8.0%
Foreign currency	37,294	152	1.6%	5,040	310	24.9%
Investments in finance leases (net)	206,888	10,631	20.8%	143,117	7,672	21.7%
GEL	68,938	4,531	26.7%	36,621	2,864	31.7%
Foreign currency	137,950	6,100	17.9%	106,496	4,808	18.3%
Total interest-earning assets	**13,382,636**	**337,556**	**10.2%**	**10,536,019**	**289,728**	**11.2%**
GEL	5,754,473	204,065	14.4%	4,579,313	177,189	15.7%
Foreign currency	7,628,163	133,491	7.1%	5,956,706	112,539	7.7%

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency assets are principally denominated in U.S. dollars, but TBC also has foreign currency assets denominated in other currencies of both OECD and non-OECD countries. Average rate is (x) interest income divided by (y) average balance and annualised.

(3) Includes overnight deposits and correspondent accounts that are within "Cash and cash equivalents" in the Unaudited Condensed Consolidated Interim Financial Statements.

The average rate on total interest-earning assets decreased to 10.2% for the three months ended 31 March 2019 from 11.2% for the three months ended 31 March 2018, mainly due to the decreased yields on

Lari-denominated interest earning assets primarily resulting from the decrease in the NBG monetary policy rate from 7.25% as of 31 March 2018 to 6.50% as of 31 March 2019.

	For the year ended 31 December								
	2018			2017			2016		
	Average balance[(1)]	Interest income	Average rate (%)[(2)]	Average balance[(1)]	Interest income	Average rate (%)[(2)]	Average balance[(1)]	Interest income	Average rate (%)[(2)]
	(unaudited) (GEL thousands, except percentages)								
Interest-earning assets									
Due from other banks[(3)]	1,036,586	22,722	2.2%	793,495	14,577	1.8%	379,525	4,502	1.2%
GEL	10,332	9,996	96.8%	50,839	6,384	12.6%	86,605	4,404	5.1%
Foreign currency	1,026,254	12,726	1.2%	742,656	8,193	1.1%	292,920	98	—
Gross loans to customers	9,131,433	1,123,972	12.3%	7,618,228	919,796	12.1%	5,146,440	688,756	13.4%
GEL	3,732,463	664,592	17.8%	2,933,049	494,474	16.9%	1,800,234	341,941	19.0%
Foreign currency	5,398,970	459,380	8.5%	4,685,179	425,322	9.1%	3,346,206	346,815	10.4%
Investment securities measured at fair value through other comprehensive income and bonds carried at amortised cost[(4)]	1,258,314	97,682	7.8%	977,301	76,063	7.8%	659,084	56,421	8.6%
GEL	1,248,412	97,058	7.8%	975,914	75,915	7.8%	658,870	56,381	8.6%
Foreign currency	9,902	624	6.3%	1,387	148	10.6%	214	40	18.7%
Investments in finance leases (net) and other income	170,709	38,837	22.8%	105,692	23,273	22.0%	79,705	16,731	21.0%
GEL	49,556	14,964	30.2%	17,411	5,673	32.6%	8,672	2,628	30.3%
Foreign currency	121,153	23,873	19.7%	88,281	17,600	19.9%	71,033	14,103	20.0%
Total interest-earning assets	**11,597,042**	**1,283,213**	**11.1%**	**9,494,716**	**1,033,709**	**10.9%**	**6,264,754**	**766,410**	**12.2%**
GEL	5,040,763	786,610	15.6%	3,977,213	582,446	14.6%	2,554,381	405,354	15.9%
Foreign currency	6,556,279	496,603	7.6%	5,517,503	451,263	8.2%	3,710,373	361,056	9.7%

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency assets are principally denominated in U.S. dollars, but TBC also has foreign currency assets denominated in other currencies of both OECD and non-OECD countries.

(3) Includes overnight deposits and correspondent accounts that are within "Cash and cash equivalents" in the Audited Consolidated Financial Statements.

(4) Following the adoption by TBC of IFRS 9 "Financial Instruments" as of 1 January 2018, "Investment securities available for sale" was renamed "Investment securities measured at fair value through other comprehensive income".

The average rate on total interest-earning assets increased to 11.1% for the year ended 31 December 2018 from 10.9% for the year ended 31 December 2017, broadly in line with the general market trend of increasing interest rates in the country as well as the depreciation of the Lari during 2018.

The average rate on total interest-earning assets decreased to 10.9% for the year ended 31 December 2017 from 12.2% for the year ended 31 December 2016, primarily due to the decrease in the average market interest rates on loans to customers and investment securities available for sale, in line with the general market trend of decreasing interest rates on these interest-earning assets.

The following tables set out the average balances of TBC's interest-bearing liabilities, the related interest expense and average rates for the periods indicated:

	For the three months ended 31 March					
	2019			2018		
	Average balance[(1)]	Interest expense	Average rate (%)[(2)]	Average balance[(1)]	Interest expense	Average rate (%)[(2)]
	(unaudited) (GEL thousands, except percentages)					
Interest-bearing liabilities						
Due to credit institutions	2,826,264	49,246	7.1%	2,418,542	42,004	7.0%
GEL	1,052,235	23,784	9.2%	1,154,491	23,898	8.4%
Foreign currency	1,774,029	25,462	5.8%	1,264,051	18,106	5.8%
Customer accounts	9,208,267	77,026	3.4%	7,680,577	63,400	3.3%
GEL	3,331,477	49,263	6.0%	2,479,245	35,640	5.8%
Foreign currency	5,876,790	27,763	1.9%	5,201,332	27,760	2.2%
Subordinated debt	657,380	15,672	9.7%	413,739	9,640	9.4%
GEL	13,022	248	7.7%	13,022	248	7.7%
Foreign currency	644,358	15,424	9.7%	400,717	9,392	9.5%
Debt securities in issue	13,323	270	8.2%	19,927	407	8.3%
GEL	—	—		—	—	
Foreign currency	13,323	270	8.2%	19,927	407	8.3%
Lease liabilities	47,990	587	5.0%	—	—	—
GEL	1,761	21	4.9%	—	—	—
Foreign currency	46,229	566	5.0%	—	—	—
Total interest- bearing liabilities	**12,753,224**	**142,801**	**4.5%**	**10,532,785**	**115,451**	**4.5%**
GEL	4,398,495	73,316	6.8%	3,646,758	59,786	6.7%
Foreign currency	8,354,729	69,485	3.4%	6,886,027	55,665	3.3%

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency liabilities are principally denominated in U.S. dollars, but TBC also has foreign currency liabilities denominated in other currencies of both OECD and non-OECD countries. Average rate is (x) interest expense divided by (y) average balance and annualised.

The average rate on total interest-bearing liabilities of 4.5% remained broadly stable for the three months ended 31 March 2019, compared to the same period in 2018.

	For the year ended 31 December								
	2018			2017			2016		
	Average balance[(1)]	Interest expense	Average rate (%)[(2)]	Average balance[(1)]	Interest expense	Average rate (%)[(2)]	Average balance[(1)]	Interest expense	Average rate (%)[(2)]
	(unaudited) (GEL thousands, except percentages)								
Interest-bearing liabilities									
Due to credit institutions	2,746,973	197,403	*7.2%*	2,415,000	158,255	*6.6%*	1,231,266	86,179	*7.0%*
GEL	*1,201,799*	*103,338*	*8.6%*	*1,108,703*	*88,472*	*8.0%*	*493,369*	*45,498*	*9.2%*
Foreign currency	*1,545,174*	*94,065*	*6.1%*	*1,306,297*	*69,783*	*5.3%*	*737,897*	*40,681*	*5.5%*
Customer accounts	8,306,946	272,279	*3.3%*	6,810,215	234,969	*3.5%*	4,624,485	154,840	*3.3%*
GEL	*2,776,235*	*157,634*	*5.7%*	*1,963,041*	*115,891*	*5.9%*	*1,143,839*	*55,431*	*4.8%*
Foreign currency	*5,530,711*	*114,645*	*2.1%*	*4,847,174*	*119,078*	*2.5%*	*3,480,646*	*99,409*	*3.3%*
Subordinated debt	432,616	41,571	*9.6%*	386,291	36,975	*9.6%*	306,472	34,325	*11.2%*
GEL	*13,012*	*1,005*	*7.7%*	*13,014*	*1,019*	*7.8%*	*13,016*	*1,038*	*8.0%*
Foreign currency	*419,604*	*40,566*	*9.7%*	*373,277*	*35,956*	*9.6%*	*293,456*	*33,287*	*11.3%*
Debt securities in issue	*17,239*	*1,402*	*8.1%*	*23,411*	*1,943*	*8.3%*	*20,401*	*1,778*	*8.7%*
GEL	—	—	—	—	—	—	—	—	—
Foreign currency	*17,239*	*1,402*	*8.1%*	*23,411*	*1,943*	*8.3%*	*20,401*	*1,778*	*8.7%*
Total interest- bearing liabilities	**11,503,774**	**512,655**	***4.5%***	**9,634,917**	**432,142**	***4.5%***	**6,182,624**	**277,122**	***4.5%***
GEL	*3,991,046*	*261,977*	*6.6%*	*3,084,758*	*205,382*	*6.7%*	*1,650,224*	*101,967*	*6.2%*
Foreign currency	*7,512,728*	*250,678*	*3.3%*	*6,550,159*	*226,761*	*3.5%*	*4,532,400*	*175,155*	*3.9%*

Notes:

(1) Average balance is calculated as the sum of the monthly averages of the respective balances.

(2) Foreign currency liabilities are principally denominated in U.S. dollars, but TBC also has foreign currency liabilities denominated in other currencies of both OECD and non-OECD countries.

The average rate on total interest-bearing liabilities was 4.5% for each of the years ended 31 December 2018, 2017 and 2016, which reflected several trends including the decreased NBG monetary policy rate and the respective increase in the GEL denominated borrowings, which more than offset decreasing foreign currency denominated customer deposits and borrowings; and increasing average rates on customer deposits and decreasing average rates on amounts due to credit institutions.

Interest-Earning Assets, Yields, Margins and Spreads

The following tables set out the net interest income, yields, margins and spreads for TBC for the periods indicated:

	For the three months ended 31 March	
	2019	**2018**
	(unaudited) (GEL thousands)	
Net interest income		
GEL	130,749	117,403
Foreign currency	64,006	56,874
Total	**194,755**	**174,277**
	(%)	
Yield[1] (%)		
GEL	16.5%	17.7%
Foreign currency	8.2%	8.6%
Weighted Average	11.5%	12.3%
Margin[2] (%)		
GEL	9.6%	10.8%
Foreign currency	3.5%	4.0%
Weighted Average	6.1%	6.9%
Spread[3] (%)		
GEL	8.1%	9.6%
Foreign currency	3.9%	4.6%
Weighted Average	6.0%	7.0%

Notes:

(1) "Yield" is interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the three months ended 31 March 2019 and 2018 and annualised.

(2) "Margin" is net interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the three months ended 31 March 2019 and 2018 and annualised.

(3) "Spread" is the difference between the average rate of interest income on interest-earning assets and the average rate of interest expense on interest-bearing liabilities and annualised.

	For the year ended 31 December		
	2018	2017	2016
	(unaudited) (GEL thousands)		
Net interest income			
GEL	524,633	377,064	303,386
Foreign currency	245,925	224,503	185,902
Total	**770,558**	**601,567**	**489,288**
	(%)		
Yield[1] (%)			
GEL	17.8%	16.9%	19.0%
Foreign currency	8.5%	9.1%	10.4%
Weighted Average	12.3%	12.1%	13.4%
Margin[2] (%)			
GEL	10.8%	9.7%	11.9%
Foreign currency	3.8%	4.1%	5.0%
Weighted Average	6.8%	6.5%	7.8%
Spread[3] (%)			
GEL	9.6%	8.3%	9.7%
Foreign currency	4.4%	4.8%	5.9%
Weighted Average	6.9%	6.6%	7.8%

Notes:

(1) "Yield" is interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the years ended 31 December 2018, 2017 and 2016.

(2) "Margin" is net interest income as a percentage of average interest-earning assets, calculated based on monthly averages for the years ended 31 December 2018, 2017 and 2016.

(3) "Spread" is the difference between the average rate of interest income on interest-earning assets and the average rate of interest expense on interest-bearing liabilities.

For a discussion of net interest income, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Volume and Rate Analysis

The following tables set out certain information regarding changes in TBC's interest income, interest expense and net interest income due to changes in volumes and interest rates calculated as interest

income/expense for the period divided by the relevant average balance of interest-earning assets/interest-bearing liabilities for the periods indicated.

	For the three months ended 31 March 2019/2018		
	Increase/(Decrease) due to changes in		
	Volume[(1)]	Rate[(2)]	Total[(3)]
	(unaudited) (GEL thousands)		
Interest income attributable to:			
Due from other banks	**2,036**	**(1,317)**	**719**
GEL	154	342	496
Foreign currency	1,113	(890)	223
Loans and advances to customers	**57,131**	**(21,130)**	**36,001**
GEL	28,461	(12,055)	16,406
Foreign currency	25,948	(6,353)	19,595
Investment securities measured at fair value through other comprehensive income and bonds carried at amortised cost	**10,370**	**(2,221)**	**8,149**
GEL	9,632	(1,325)	8,307
Foreign currency	1,984	(2,142)	(158)
Investments in finance leases	**3,419**	**(460)**	**2,959**
GEL	2,527	(860)	1,667
Foreign currency	1,420	(128)	1,292
Total interest income	**72,956**	**(25,128)**	**47,828**
Interest expenses attributable to:			
Due to credit institutions	**7,081**	**161**	**7,242**
GEL	(2,117)	2,003	(114)
Foreign currency	7,305	51	7,356
Customer accounts	**12,610**	**1,016**	**13,626**
GEL	12,251	1,372	13,623
Foreign currency	3,605	(3,602)	3
Subordinated debt	**5,677**	**355**	**6,032**
GEL	—	—	—
Foreign currency	5,710	322	6,032
Debt securities in issue	**(135)**	**(2)**	**(137)**
GEL	—	—	—
Foreign currency	(135)	(2)	(137)
Lease liabilities	**—**	**587**	**587**
GEL	—	21	21
Foreign currency	—	566	566
Total interest expenses	**25,233**	**2,117**	**27,350**
Net change in net interest income	**47,723**	**(27,245)**	**20,478**

Notes:

(1) Changes in volume are changes in average outstanding balances multiplied by the prior period's average interest rate.

(2) Changes in rate are changes in average interest rate multiplied by the average outstanding balances at the end of the current period.

(3) Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate at the ratio each component bears to the absolute value of their total.

	For the years ended 2018/2017			For the years ended 2017/2016		
	Increase/(Decrease) due to changes in			Increase/(Decrease) due to changes in		
	Volume[1]	Rate[2]	Total[3]	Volume[1]	Rate[2]	Total[3]
	(unaudited) (GEL thousands)					
Interest income attributable to:						
Due from other banks	**4,466**	**3,679**	**8,145**	**4,911**	**5,164**	**10,075**
GEL	(5,087)	8,699	3,612	(1,819)	3,799	1,980
Foreign currency	3,129	1,404	4,533	150	7,945	8,095
Loans and advances to customers	**182,699**	**21,477**	**204,176**	**330,803**	**(99,763)**	**231,040**
GEL	134,771	35,347	170,118	215,170	(62,637)	152,533
Foreign currency	64,798	(30,740)	34,058	138,777	(60,270)	78,507
Investment securities measured at fair value through other comprehensive income and bonds carried at amortised cost	**21,871**	**(252)**	**21,619**	**27,241**	**(7,599)**	**19,642**
GEL	21,197	(54)	21,143	27,130	(7,596)	19,534
Foreign currency	909	(433)	476	219	(111)	108
Investments in finance leases and other income	**14,317**	**1,247**	**15,564**	**5,455**	**1,087**	**6,542**
GEL	10,474	(1,183)	9,291	2,648	397	3,045
Foreign currency	6,553	(280)	6,273	3,424	73	3,497
Total interest income	**223,352**	**26,152**	**249,504**	**368,410**	**(101,111)**	**267,299**
Interest expenses attributable to:						
Due to credit institutions	**21,754**	**17,394**	**39,148**	**82,852**	**(10,776)**	**72,076**
GEL	7,429	7,437	14,866	56,745	(13,771)	42,974
Foreign currency	12,761	11,521	24,282	31,336	(2,234)	29,102
Customer accounts	**51,641**	**(14,331)**	**37,310**	**73,184**	**6,945**	**80,129**
GEL	48,008	(6,265)	41,743	39,699	20,761	60,460
Foreign currency	16,792	(21,225)	(4,433)	39,029	(19,360)	19,669
Subordinated debt	**4,434**	**162**	**4,596**	**8,940**	**(6,290)**	**2,650**
GEL	—	(14)	(14)	—	(19)	(19)
Foreign currency	4,462	148	4,610	9,054	(6,385)	2,669
Debt securities in issue	**(512)**	**(29)**	**(541)**	**262**	**(97)**	**165**
GEL	—	—	—	—	—	—
Foreign currency	(512)	(29)	(541)	262	(97)	165
Total interest expenses	**77,317**	**3,196**	**80,513**	**165,238**	**(10,218)**	**155,020**
Net change in net interest income	**146,035**	**22,956**	**168,991**	**203,172**	**(90,893)**	**112,279**

Notes:

(1) Changes in volume are changes in average outstanding balances multiplied by the prior period's average interest rate.

(2) Changes in rate are changes in average interest rate multiplied by the average outstanding balances at the end of the current period.

(3) Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate at the ratio each component bears to the absolute value of their total.

Loan Portfolio

Loans to customers represent the largest part of TBC's assets. Net loans to customers represented 66.3% of total assets as at 31 March 2019, compared to 65.0% as at 31 December 2018, 64.4% as at 31 December 2017 and 66.3% as at 31 December 2016.

Total net loans to customers decreased by GEL 9.1 million, or 0.1%, to GEL 10,029.3 million as at 31 March 2019 from GEL 10,038.5 million as at 31 December 2018, after having increased, in 2018, by GEL 1,713.1 million, or 20.6%, from GEL 8,325.4 million as at 31 December 2017 and GEL 7,133.7 million as at 31 December 2016.

For a discussion of the impact of the average interest rates on TBC's loan portfolio for the periods ending 31 March 2019, 31 December 2018, 2017 and 2016, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Three Month Periods ended 31 March 2019 and 2018—Consolidated results of operations—Interest income*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years ended 31 December 2018 and 2017—Consolidated results of operations—Interest income*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years ended 31 December 2017 and 2016—Consolidated results of operations—Interest income*".

Loans to customers by sector

The following table sets out an analysis of TBC's total gross loans to customers, by economic sector, as at the dates indicated:

	As at 31 December					
	2018		2017		2016	
			(audited)			
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Individual	4,677,328	45%	4,198,386	49%	3,721,450	51%
Energy & Utilities	776,204	7%	719,854	8%	540,116	7%
Hospitality & Leisure	759,605	7%	450,741	5%	319,497	4%
Food Industry	570,810	6%	524,286	6%	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%
Construction	220,756	2%	172,255	2%	182,131	2%
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%**

In 2018, TBC re-assessed its economic sector categorisation and has accordingly also presented the figures for gross loans to customers as at 31 December 2018 in accordance with the new allocation in order to provide a comparison for the figures as at 31 March 2019.

	As at 31 March 2019		As at 31 December 2018	
	(unaudited) (GEL thousands)	(%)	(audited) (GEL thousands)	(%)
Individual	4,560,433	44%	4,677,328	45%
Energy & Utilities	825,872	8%	776,204	7%
Hospitality & Leisure	816,633	8%	759,605	7%
Food Industry	586,463	6%	570,810	6%
Real Estate	586,331	6%	564,197	5%
Trade	508,655	5%	445,290	4%
Agriculture	428,842	4%	418,432	4%
Construction	376,172	4%	359,549	3%
Pawn Shops	276,006	3%	278,384	3%
Healthcare	238,551	2%	220,756	2%
Communication	221,655	2%	229,522	2%
Automotive	194,036	2%	156,241	2%
Services	190,986	2%	180,045	2%
Transportation	108,115	1%	80,075	1%
Metals and Mining	100,793	1%	100,855	1%
Financial Services	56,164	1%	71,617	1%
Other	291,207	3%	483,672	5%
Total loans and advances to customers (before impairment)	**10,366,914**	**100.0%**	**10,372,582**	**100.0%**

Total gross loans to customers decreased to GEL 10,366.9 million as at 31 March 2019 from GEL 10,372.6 million as at 31 December 2018. Under the new sector categorisation that took effect in 2018, loans to individuals accounted for 44% of total gross loans to customers as at 31 March 2019, compared to 45% as at 31 December 2018, and in absolute terms, gross loans to individuals decreased to GEL 4,560.4 million as at 31 March 2019, from GEL 4,667.3 million as at 31 December 2018.

Loans to customers by type

The following table sets out an analysis of TBC's total gross loans to customers, by type of loan, as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018[(1)]		2017		2016	
	(unaudited) (GEL thousands)	(%)	(GEL thousands)	(%)	(audited) (GEL thousands)	(%)	(GEL thousands)	(%)
Corporate loans	3,364,911	32.5%	3,177,289	30.6%	2,475,392	28.9%	2,062,229	28.0%
Retail loans	4,578,273	44.2%	4,698,699	45.3%	4,233,153	49.5%	3,680,576	50.0%
Consumer loans	1,882,816	18.2%	*1,989,516*	*19.2%*	*2,163,425*	*25.3%*	1,872,142	*25.4%*
Mortgage loans	2,695,457	26.0%	*2,709,183*	*26.1%*	*2,069,728*	*24.2%*	1,808,434	*24.6%*
MSME loans	2,423,730	23.4%	2,496,594	24.1%	1,844,672	21.6%	1,615,920	22.0%
Gross loans to customers	**10,366,914**	**100%**	**10,372,582**	**100%**	**8,553,217**	**100%**	**7,358,725**	**100%**

Note:

(1) In Q1 2018, TBC Bank reclassified its loans and deposits portfolios (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment analysis*"). The figures in the table above reflect the reclassified portfolios for periods starting from Q1 2018; accordingly, 2018 figures by segments may not be comparable with the 2017 and 2016 figures.

Retail loans accounted for the largest portion of total gross loans to customers, representing 44.2% of the total as at 31 March 2019, compared to 45.3%, 49.5% and 50.0% as at 31 December 2018, 2017 and 2016, respectively. The decrease in the percentage of total gross loans to customers represented by retail loans as at 31 December 2018 was primarily due to the re-segmentation carried out in Q1 2018, whereby GEL 236 million was transferred from the retail to MSME portfolio and GEL 66 million was transferred from MSME to corporate loans.

Retail loans decreased by GEL 120.4 million, or 2.6%, to GEL 4,578.3 million as at 31 March 2019, from GEL 4,698.7 million as at 31 December 2018, having increased, in 2018, by GEL 465.5 million, or 11.0%, from GEL 4,233.2 million as at 31 December 2017, and in 2017 by GEL 552.5 million, or 15.0%, from GEL 3,680.6 million as at 31 December 2016. The increase as at 31 December 2018 compared to 31 December 2017 was primarily due to the depreciation of the Lari, the increase in mortgage loans and TBC's strategy to optimise the segment mix of its loan portfolio. See "*Description of Business—Strategy—Maintain TBC's leadership position and continue sustainable growth in each market segment*". Similarly, the 15% increase as at 31 December 2017 compared to the previous year reflected an increase in both mortgage and consumer loans, aligning with the growth in the Georgian economy generally and a related increase in the number of banking customers.

Corporate loans increased by GEL 187.6 million, or 5.9% to GEL 3,364.9 million as at 31 March 2019, having increased by GEL 701.9 million, or 28.4%, to GEL 3,177.3 million as at 31 December 2018 from GEL 2,475.4 million as at 31 December 2017, and having increased in 2017 by GEL 413.2 million, or 20.0%, from GEL 2,062.2 million as at 31 December 2016. The increase in the first three months of 2019 was driven by a GEL 128 million transfer of certain accounts from MSME to corporate loans in the first quarter of 2019; excluding this transfer, the increase would have been GEL 59.7 million, or 1.9%, from 31 December 2018 to 31 March 2019. The increase in 2018 was primarily due to the depreciation of the Lari and re-segmentation effect, whereby GEL 66 million was transferred from MSME to corporate loans. Management estimates that if the effects of the depreciation of the Lari on corporate loans and the re-segmentation effect in 2018 were eliminated, corporate loans would have increased by 22.3% from 2017 to 2018, reflecting the increased demand from existing corporate customers as well as the increase in the number of new corporate clients. The 20.0% increase as at 31 December 2017 compared to the previous year was mainly due to newly acquired blue chip customers.

MSME loans decreased by GEL 72.9 million, or 2.9%, to GEL 2,423.7 million as at 31 March 2019, having increased by GEL 651.9 million, or 35.3%, to GEL 2,496.6 million as at 31 December 2018 from GEL 1,844.7 million as at 31 December 2017, and in 2017 by GEL 228.8 million, or 14.2%, from GEL 1,615.9 million as at 31 December 2016. The decrease in the first three months of 2019 was driven by a GEL 128 million transfer of certain accounts from MSME to corporate loans in the first quarter of 2019; excluding this transfer, the increase would have been GEL 55.1 million, or 2.2%, from 31 December 2018 to 31 March 2019. The increase as at 31 December 2018 compared to 31 December 2017 was primarily due continued demand for MSME loans and TBC's strategy to increase exposure to the MSME segment, which is the least penetrated segment in the Georgian banking sector, as well as the re-segmentation in Q1 2018 as a result of which GEL 236 million was transferred from retail to MSME portfolios. Management estimates that without re-segmentation effect the increase would have been 23.4%.

As at 31 March 2019, TBC's largest borrower accounted for 1.7% of total gross loans to customers and TBC's twenty largest borrowers accounted for 13.5% of total gross loans to customers, compared to 1.8% and 14.2%, respectively, as at 31 December 2018, 1.4% and 12.4%, respectively, as at 31 December 2017 and 1.4% and 11.3%, respectively, as at 31 December 2016.

Loans by maturity

The following table sets out information on the maturity profile of net loans to customers by TBC Bank (on a consolidated basis), by type of loan, as at 31 March 2019 (based on the expected maturity of discounted individual payments):

	Due in				
	Less than three months	Between three months and one year	Between one and five years	Over five years	Total
			(unaudited) (GEL thousands)		
Corporate loans	521,243	745,934	1,222,806	792,537	3,282,520
Retail loans	316,729	549,370	1,851,600	1,681,061	4,398,760
MSME loans	296,751	575,157	1,087,545	388,587	2,348,040
Total net loans to customers	**1,134,723**	**1,870,461**	**4,161,951**	**2,862,185**	**10,029,320**

The following table sets out an analysis of net loans to customers by TBC Bank, by maturity, as at the dates indicated (based on the expected maturity of discounted individual payments):

	As at 31 March 2019		As at 31 December					
			2018		2017		2016	
	(unaudited)				(audited)			
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Less than three months	1,134,723	11.3%	1,090,521	10.9%	1,031,608	12.4%	1,119,128	15.7%
Between three months and one year	1,870,461	18.6%	2,056,149	20.5%	1,767,797	21.2%	1,481,095	20.8%
Over one year	7,024,136	70.0%	6,891,782	68.7%	5,525,948	66.4%	4,533,479	63.6%
Net loans to customers	**10,029,320**	**100%**	**10,038,452**	**100%**	**8,325,353**	**100%**	**7,133,702**	**100%**

The maturity profile of TBC Bank's net loans to customers has been stable in recent years. The largest single category of net loans to customers granted by TBC Bank has maturities over one year. Loans to customers with maturities over one year accounted for 70.0% of total net loans to customers as at 31 March 2019, compared to 68.7% as at 31 December 2018, 66.4% as at 31 December 2017 and 63.6% as at 31 December 2016. Loans to customers with maturities for less than one year accounted for 30.0% of total net loans to customers as at 31 March 2019, compared to 31.3% as at 31 December 2018, 33.6% as at 31 December 2017 and 36.4% as at 31 December 2016.

Loans by currency

The following table sets out an analysis of TBC's net loans to customers, by currency, as at the dates indicated:

	As at 31 March 2019		As at 31 December					
			2018		2017		2016	
	(unaudited)				(audited)			
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Lari	3,943,208	39.3%	3,943,214	39.3%	3,328,182	40.0%	2,439,726	34.2%
Foreign currencies	6,086,112	60.7%	6,095,238	60.7%	4,997,171	60.0%	4,693,976	65.8%
Net loans to customers	**10,029,320**	**100%**	**10,038,452**	**100%**	**8,325,353**	**100%**	**7,133,702**	**100%**

The composition of TBC's net loans to customers by currency has historically been relatively stable. As at 31 March 2019, Lari-denominated loans to customers comprised 39.3% of TBC's total net loans to customers, compared to 39.3% as at 31 December 2018, 40.0% as at 31 December 2017 and 34.2% as at 31 December 2016. Loans to customers denominated in foreign currency accounted for 60.7% of total net loans to customers as at 31 March 2019, 60.7% as at 31 December 2018, 60.0% as at 31 December 2017 and 65.8% as at 31 December 2016.

By comparison, as at 31 March 2019, 59.6% of TBC's gross loans and 56.0% of TBC's retail, 70.0% of corporate and 52.2% of MSME gross loans were denominated in foreign currency, of which 65.6% of total gross loans, and 71.3%, 48.6%, 85.7% of retail, corporate and MSME gross loans, respectively, were to customers who earn their income in Lari. As at the same date, 81.1% of TBC's mortgage loans and 19.9% of non-mortgage loans were denominated in foreign currency, of which 70.4% and 76.4%, respectively, were to customers who earn their income in Lari.

Loans by geographic location

As at 31 March 2019, 95.0% of TBC's gross loans to customers were to residents of Georgia, compared to 94.9% as at 31 December 2018, 95.6% as at 31 December 2017 and 97.0% as at 31 December 2016. A small proportion of loans to customers have been granted to borrowers outside Georgia, primarily due to the operations of TBC's subsidiary, TBC Kredit, which is incorporated and operates in Azerbaijan and accounts for the majority of loans to customers granted to clients outside Georgia. As at 31 March 2019, and 31 December 2018, 2017 and 2016, net loans to customers in Azerbaijan totalled GEL 18.0 million, GEL 23.4 million, GEL 29.5 million and GEL 29.8 million, respectively.

Loan portfolio quality

As a result of its prudent risk management policies and proactive approach towards potential client payment vulnerabilities, Management considers that TBC maintains a high quality loan portfolio.

The following table sets out certain information about TBC Bank's loan portfolio quality:

	As at and for the three months ended 31 March	As at and for the year ended 31 December		
	2019	2018	2017	2016
	(unaudited)			
Total				
Non-performing Loan ratio	3.3%	3.1%	3.3%	3.5%
Of which GEL denominated	*3.3%*	*2.9%*	*2.1%*	*1.6%*
Of which foreign currency denominated	*3.2%*	*3.3%*	*4.1%*	*4.4%*
PAR 30 to gross loans ratio	2.4%	2.0%	2.2%	2.2%
Of which GEL denominated	*3.2%*	*2.8%*	*2.1%*	*1.9%*
Of which foreign currency denominated	*1.9%*	*1.4%*	*2.2%*	*2.3%*
Non-performing Loan coverage ratio	100.1%	102.7%	81.8%(1)	88.4%
Non-performing Loan coverage ratio with collateral	210.8%	216.4%	186.5%(2)	222.5%
Cost of risk	1.4%	1.6%	1.2%	1.0%
FX-adjusted cost of risk	1.4%	1.5%	1.4%	0.8%

* TBC adopted IFRS 9, "Financial Instruments", from 1 January 2018. TBC elected not to restate comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 and 2016 is reported under IAS 39 and is not comparable to the information presented for 2018. For more information, see Note 2 to the Audited Consolidated Financial Statements.

Notes:

(1) Non-performing Loan coverage ratio determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 104.7%.

(2) Non-performing Loan coverage ratio with collateral determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 209.4%.

TBC Bank's Non-performing Loan ratio has decreased since 2016 attributable to the improved performance of the corporate segment loan book. The Non-performing Loan ratio stood at 3.3% as at 31 March 2019. The increase compared to the 31 December 2018 was mainly attributable to non-mortgage retail loans.

TBC Bank's Non-performing Loan coverage ratio stood at 100.1% as at 31 March 2019. As at the same date, the Non-performing Loan coverage ratio with collateral stood at 210.8%. Management believes that TBC's Non-performing Loan coverage ratios provide substantial protection against potential future loan losses. See "*Lending Policies and Procedures—Non-performing and Restructured Loans and overdue finance leases*". Management considers that TBC's loan portfolio has historically been well-secured. For a discussion of TBC's collateral policies, including information relating to the collateralisation of TBC's gross loan portfolio, see "*Lending Policies and Procedures—Collateral Policies*".

FX-adjusted cost of risk was low in 2016 mainly driven by high recovery of provision charges in the corporate segment. Since 2016, FX-adjusted cost of risk on the total portfolio has remained relatively stable, and was 1.4% as at 31 March 2019.

The following table sets out certain information about TBC Bank's loan portfolio quality by segment:

	As at and for the three months ended 31 March	As at and for the year ended 31 December		
	2019	2018	2017	2016
	(unaudited)			
Retail				
Non-performing Loan ratio	3.2%	2.9%	2.7%	2.5%
Of which GEL denominated	*4.3%*	*3.7%*	*2.6%*	*1.8%*
Of which foreign currency denominated	*2.3%*	*2.3%*	*2.8%*	*3.0%*
PAR 30 to gross loans ratio	2.9%	2.6%	2.4%	2.4%
Of which GEL denominated	*4.4%*	*4.0%*	*2.9%*	*2.5%*
Of which foreign currency denominated	*1.8%*	*1.5%*	*2.0%*	*2.3%*
Non-performing Loan coverage ratio	123.8%	132.4%	120.8%(1)	106.6%
Non-performing Loan coverage ratio with collateral	190.0%	204.4%	204.1%(2)	205.6%
Cost of risk	2.4%	2.7%	2.8%	3.0%
FX-adjusted cost of risk	2.4%	2.7%	3.0%	2.9%
Corporate				
Non-performing Loan ratio	2.6%	2.7%	3.2%	4.8%
Of which GEL denominated	*1.7%*	*1.6%*	*0.0%*	*0.7%*
Of which foreign currency denominated	*3.0%*	*3.1%*	*4.2%*	*6.1%*
PAR 30 to gross loans ratio	1.2%	0.4%	1.5%	1.0%
Of which GEL denominated	*1.1%*	*0.7%*	*0.0%*	*0.0%*
Of which foreign currency denominated	*1.2%*	*0.3%*	*2.0%*	*1.4%*
Non-performing Loan coverage ratio	95.4%	96.4%	63.2%(3)	91.8%
Non-performing Loan coverage ratio with collateral	288.7%	286.9%	187.7%(4)	262.2%
Cost of risk	(0.1)%	0.4%	(1.3)%	(3.2)%
FX-adjusted cost of risk	(0.1)%	0.3%	(1.2)%	(3.7)%
MSME				
Non-performing Loan ratio	4.4%	4.2%	4.6%	4.0%
Of which GEL denominated	*3.0%*	*2.6%*	*2.2%*	*1.8%*
Of which foreign currency denominated	*5.6%*	*5.5%*	*6.0%*	*4.9%*
PAR 30 to gross loans ratio	3.1%	2.8%	2.5%	3.0%
Of which GEL denominated	*2.7%*	*2.4%*	*1.5%*	*1.8%*
Of which foreign currency denominated	*3.5%*	*3.2%*	*3.1%*	*3.5%*
Non-performing Loan coverage ratio	71.4%	68.4%	46.1%(5)	57.7%
Non-performing Loan coverage ratio with collateral	175.2%	174.0%	162.2%(6)	186.4%
Cost of risk	1.6%	0.7%	0.8%	2.1%
FX-adjusted cost of risk	1.6%	0.7%	0.9%	2.1%

* TBC adopted IFRS 9, "Financial Instruments", from 1 January 2018. TBC elected not to restate comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 and 2016 is reported under IAS 39 and is not comparable to the information presented for 2018. For more information, see Note 2 to the Audited Consolidated Financial Statements.

Notes:

(1) Retail Non-performing Loan coverage ratio determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 154.0%.

(2) Retail Non-performing Loan coverage ratio with collateral determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 237.3%.

(3) Corporate Non-performing Loan coverage ratio determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 86.6%.

(4) Corporate Non-performing Loan coverage ratio with collateral determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 211.0%.

(5) MSME Non-performing Loan coverage ratio determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 54.6%.

(6) MSME Non-performing Loan coverage ratio with collateral determined upon adoption of IFRS 9 at opening balance as at 1 January 2018 equals 170.6%.

Amounts Due from Other Banks and Mandatory Cash Balances with the NBG

Amounts due from other banks and mandatory cash balances with the NBG together represented 9.5% of TBC's total assets as at 31 March 2019, compared to 9.4% as at 31 December 2018, 8.3% as at 31 December 2017 and 9.4% as at 31 December 2016. Deposits placed with other banks are typically used for liquidity management purposes. Mandatory cash balances with the NBG represent amounts deposited by TBC with the NBG to meet reserve requirements.

The following table sets out a breakdown of amounts due from other banks and mandatory cash balances with the NBG as at the dates indicated:

	As at 31 March 2019	As at 31 December 2018	2017	2016
	(unaudited)	(audited)		
	(GEL thousands)			
Due from other banks	22,112	37,384	37,789	23,824
Mandatory cash balances with the NBG	1,416,082	1,422,809	1,033,818	990,642

Amounts due from other banks decreased by GEL 15.3 million, or 40.9%, to GEL 22.1 million as at 31 March 2019 from GEL 37.4 million as at 31 December 2018, mainly due to relatively high liquidity in the first quarter of 2019 and increased placements of deposits in other banks. Amounts due from other banks decreased by GEL 0.4 million, or 1.1%, to GEL 37.4 million as at 31 December 2018 from GEL 37.8 million as at 31 December 2017 and increased from GEL 23.8 million as at 31 December 2016. The increase in 2017 was driven by increased demand for interbank borrowings.

Mandatory cash balances with the NBG decreased by GEL 6.7 million, or 0.5%, to GEL 1,416.1 million as at 31 March 2019 compared to GEL 1,422.8 million as at 31 December 2018. Mandatory cash balances with the NBG increased by GEL 389.0 million, or 37.6%, to GEL 1,422.8 million as at 31 December 2018 from GEL 1,033.8 million as at 31 December 2017, which in turn had increased by GEL 43.2 million, or 4.4%, from GEL 990.6 million as at 31 December 2016. The decrease in the first quarter of 2019 was mainly due to a reduction in deposits during that period. The increase in 2018 was driven by increases in TBC's foreign currency borrowings with remaining maturities of less than a year, which have higher minimum reserve requirements than other borrowings. The increase in 2017 was primarily attributable to the increases in TBC Bank's deposit portfolio during 2017.

Investment securities measured at fair value through other comprehensive income

Investment securities measured at fair value through other comprehensive income include investment securities which TBC intends to hold for an indefinite period of time and which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices. TBC classifies investment securities measured at fair value through other comprehensive income at the time of purchase. Investment securities measured at fair value through other comprehensive income are carried at fair value. Interest income on such debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on such equity instruments are recognised in profit or loss when TBC'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 recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is transferred from equity to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("**loss events**") that occurred after the initial recognition of investment securities measured at fair value through other comprehensive income.

The following table sets out a breakdown of TBC's portfolio of investment securities measured at fair value through other comprehensive income, by type of security, as at the dates indicated:

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
	(unaudited)	(audited)		
	(GEL thousands)			
Corporate bonds	548,517	549,477	328,761	150,073
Ministry of Finance of treasury bills	277,588	373,447	319,745	241,810
Certificates of deposit of the NBG	9,846	14,985	7,728	36,002
Government notes	—	—	—	1,016
Netherlands government bonds	—	66,760	—	—
Less: Credit loss allowance	(1,176)	(1,136)	—	—
Total debt securities	**834,775**	**1,003,533**	**656,234**	**428,901**
Corporate shares—unquoted	1,707	1,706	1,704	1,802
Total investment securities measured at fair value through other comprehensive income	**836,482**	**1,005,239**	**657,938**	**430,703**

TBC's investment securities measured at fair value through other comprehensive income decreased by GEL 168.8 million, or 16.8%, to GEL 836.5 million as at 31 March 2019 compared to GEL 1,005.2 million as at 31 December 2018 as a result of a reduction in the issuance of certificates of the NBG and Ministry of Finance treasury bills and the redemption of such certificates and treasury bills in the first quarter of 2019, as well as the repayment of bonds issued by the Dutch government. TBC's investment securities increased by GEL 347.3 million, or 52.8%, to GEL 1,005.2 million as at 31 December 2018 from GEL 657.9 million as at 31 December 2017, which in turn represented an increase of GEL 227.2 million, or 52.8%, from GEL 430.7 million as at 31 December 2016. The increase in 2018 and 2017 was mainly due to an increase in the corporate bonds issued by the IFIs and corporations.

The following table sets out the maturity profile of the debt securities in the portfolio of investment securities measured at fair value through other comprehensive income held by TBC Bank (on a standalone basis) as at 31 March 2019.

	As at 31 March 2019			
	Less than three months	From three to 12 months	Over one year	Total
	(unaudited) (GEL thousands)			
Investment securities measured at fair value through other comprehensive income	836,482	—	—	**836,482**

The following table sets out the maturity profile of the debt securities in the portfolio of investment securities measured at fair value through other comprehensive income held by TBC Bank as at 31 December 2018.

	As at 31 March 2018			
	Less than three months	From three to 12 months	Over one year	Total
	(audited) (GEL thousands)			
Investment securities measured at fair value through other comprehensive income	1,005,239	—	—	**1,005,239**

The following table sets out the nominal interest rates and maturities of the debt securities included in TBC's portfolio of investment securities measured at fair value through other comprehensive income as at the dates indicated.

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
Government notes	8.21%	1097 days	8.39%	1036 days	8.92%	1056 days	8.94%	1737 days
Certificates of deposit of NBG	6.57%	91 days	7.14%	91 days	7.20%	91 days	6.72%	147 days
Corporate bonds	7.71%	1652 days	7.63%	1648 days	7.54%	1220 days	6.91%	513 days
Ministry of Finance Treasury Bills	7.23%	356 days	7.29%	336 days	7.43%	331 days	8.50%	349 days

None of the securities held by TBC as investment securities available for sale exceeded 10% of the shareholders' equity of TBC Bank as at 31 March 2019.

Funding Sources

The following table sets out information relating to TBC's funding sources as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
			(unaudited)					
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Customer accounts	9,294,456	72.0%	9,444,746	70.8%	7,835,323	70.7%	6,461,582	70.3%
Term deposits	3,642,206	28.2%	*3,553,382*	*26.6%*	*2,839,353*	*25.6%*	*2,457,377*	*26.7%*
Current (settled/ demand) accounts	5,652,250	43.8%	*5,891,364*	*44.2%*	*4,995,970*	*45.1%*	*4,004,205*	*43.6%*
Amounts due to credit institutions	2,692,585	20.9%	3,031,505	22.7%	2,644,714	23.9%	2,199,976	23.9%
Subordinated debt	664,330	5.1%	650,919	4.9%	426,788	3.8%	368,381	4.0%
Other[(1)]	252,782	2.0%	213,961	1.6%	182,011	1.6%	160,031	1.7%
Total liabilities	**12,904,153**	**100%**	**13,341,131**	**100%**	**11,088,836**	**100%**	**9,189,970**	**100%**

Note:

(1) Comprises debt securities in issue, current income tax liability, deferred income tax liability, provisions for liabilities and charges, other financial liabilities, and other liabilities.

Deposits (customer accounts) represent the largest part of TBC's funding sources. Historically, TBC has had a stable and diversified customer base, primarily comprising individual deposits. As at 31 March 2019, deposits totalled GEL 9,294.5 million, of which 52.9% were deposits of individuals. Other sources of funding include amounts due to other credit institutions, subordinated debt and other borrowed funds.

The increase in the amount of deposits since 31 December 2016 has been influenced by a number of positive factors, including the general increased confidence in the banking sector, as well as TBC's competitiveness and overall growth of operations across its business segments, mainly from its retail and corporate segments.

The following tables set forth an analysis of short-term and long-term amounts due to customers, amounts due to other banks and other financial liabilities (i) in Lari equivalents and (ii) as a percentage of their total as at the dates indicated (based on the contractual maturity of discounted individual payments). For

the expected maturity gap please, see Note 35 to the Audited Consolidated Financial Statements and Note 22 to the Unaudited Consolidated Interim Financial Statements.

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
				(unaudited)				
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Short-term[1]	2,104,648	16.4%	2,460,486	18.6%	2,612,228	23.7%	1,998,005	21.9%
Long-term[2]	10,710,736	83.6%	10,758,232	81.4%	8,395,066	76.3%	7,105,595	78.1%
Total financial liabilities	**12,815,384**	**100%**	**13,218,718**	**100%**	**11,007,294**	**100%**	**9,103,600**	**100%**

Note:

(1) "Short-term" means due within one year of the relevant date and includes demand loans and deposits, loans having no stated schedule of repayments and no stated maturity, and overdrafts.

(2) "Long-term" means due after more than one year from the relevant date. Georgian legislation requires TBC to repay term deposits of individuals upon demand unless otherwise agreed between the parties (although in case of early withdrawal, the interest on such deposit may be foregone or reduced). The figures in this table reflect the agreed original deposit maturities.

Customer accounts

Customer current accounts and term deposits represented 72.0% of TBC's total liabilities as at 31 March 2019, compared to 70.8% as at 31 December 2018, 70.7% as at 31 December 2017 and 70.3% as at 31 December 2016. Customer current accounts generally bear no interest and the funds can be withdrawn on demand. Term deposits have maturities ranging from one day to in excess of five years and bear interest at different rates depending on the type of deposit.

Customer accounts by account and customer type

The following table sets out a breakdown of TBC's deposits, by type of account and customer, as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				(audited)			
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
State and public organisations								
Current/settlement accounts	808,890	8.7%	667,553	7.1%	810,783	10.3%	240,743	3.7%
Term deposits	676,606	7.3%	538,311	5.7%	209,641	2.7%	78,990	1.2%
Other legal entities								
Current/settlement accounts	2,595,410	27.9%	2,797,214	29.6%	2,211,502	28.2%	2,145,028	33.2%
Term deposits	298,622	3.2%	337,697	3.6%	225,132	2.9%	248,670	3.8%
Individuals								
Current/settlement accounts	2,247,950	24.2%	2,426,597	25.7%	1,973,685	25.2%	1,618,434	25.0%
Term deposits	2,666,978	28.7%	2,677,374	28.3%	2,404,580	30.7%	2,129,717	33.0%
Total customer accounts	**9,294,456**	**100%**	**9,444,746**	**100%**	**7,835,323**	**100%**	**6,461,582**	**100%**

As at 31 March 2019, total deposits decreased by GEL 150.3 million, or 1.6%, to GEL 9,294.5 million, which reflected retail deposit reductions (mostly in January and February) prior to the settlement of the dispute with the NBG (see "*Risk Factors—Risks Relating to TBC—TBC has been subject to scrutiny by the NBG and remains subject to an ongoing investigation by the Georgian Office of Public Prosecution relating to certain historic transactions*"), but also reflected the effects of seasonality. As at 31 December 2018, total deposits increased by GEL 1,609.4 million, or 20.5%, to GEL 9,444.7 million from GEL 7,835.3 million as at 31 December 2017, after having increased by GEL 1,373.7 million, or 21.3%, from GEL 6,461.6 million as at 31 December 2016. The increase in total deposits as at 31 December 2018, compared to as at 31 December 2017, was primarily due to the increase in term deposits of state and public organisations as well as current/settlement accounts of legal entities. The increase as at 31 December 2017, compared to as at 31 December 2016, was primarily due to the increase in current/settlement accounts of individuals as well as state and public organisations.

TBC had GEL 9,294.5 million of outstanding deposits as of 31 March 2019. Based on expected maturity, 10.2% of these deposits had three months or less remaining until maturity, 1.3% had between three and 12 months remaining until maturity, 88.5% had over five years remaining until maturity.

Historically, the largest portion of TBC's customer current accounts and term deposits have been individual customer accounts and term deposits, which accounted for an aggregate of 52.9% of total deposits as at 31 March 2019, 54.0% of total deposits as at 31 December 2018, 55.9% as at 31 December 2017 and 58.0% as at 31 December 2016. See "*Description of Business—Principal Business Activities—Retail banking—Retail accounts and term deposits*".

The following table sets out the average balances of, and the average interest rates on, TBC's deposits, by type of account and customer, as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
	Average balance[1]	Average rate (%)[2]	Average balance[1]	Average rate (%)[2]	Average balance[1]	Average rate (%)[2]	Average balance[1]	Average rate (%)[2]
				(unaudited)				
State and public organisations	**1,352,044**		**1,194,625**		**602,275**		**237,773**	
Current/settlement accounts	705,709	7.7%	797,345	4.1%	488,401	8.2%	161,968	7.4%
Term deposits	646,335	7.0%	397,280	16.0%	113,874	8.0%	75,805	9.0%
Other legal entities	**2,897,815**		**2,535,876**		**2,329,119**		**1,578,957**	
Current/settlement accounts	2,584,915	28.0%	2,232,798	0.6%	2,117,576	2.6%	1,432,477	1.9%
Term deposits	312,900	3.4%	303,077	12.9%	211,544	5.7%	146,480	5.3%
Individuals	**4,958,407**		**4,576,445**		**3,878,821**		**2,844,968**	
Current/settlement accounts	2,291,771	24.9%	2,099,052	5.0%	1,692,603	1.1%	1,141,599	1.5%
Term deposits	2,666,636	29.0%	2,477,393	0.7%	2,186,218	4.6%	1,703,369	5.0%
Total customer accounts	**9,208,266**	**100%**	**8,306,946**	**3.3%**	**6,810,216**	**3.5%**	**4,661,699**	**3.3%**

Note:

(1) The average balance is calculated as the average of the monthly balances in the period.

(2) The average rate is calculated as the interest expense divided by the monthly average of respective balances and annualised (where applicable).

Customer accounts by currency

The following table sets out certain information relating to deposits by currency as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
				(unaudited)				
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Customer accounts in Lari.	3,502,115	37.7%	3,295,991	34.9%	2,412,601	30.8%	1,652,569	25.6%
Customer accounts in foreign currencies	5,792,341	62.3%	6,148,755	65.1%	5,422,722	69.2%	4,809,013	74.4%
Customer accounts	**9,294,456**	**100%**	**9,444,746**	**100%**	**7,835,323**	**100%**	**6,461,582**	**100%**

Lari-denominated deposits (both current accounts and term deposits) increased as a percentage of total deposits to 37.7% as at 31 March 2019, from 34.9% as at 31 December 2018 and 30.8% as at 31 December 2017, while foreign currency-denominated deposits decreased to 62.3% of total deposits as at 31 March 2019, from 65.1% of total deposits as at 31 December 2018 and 69.2% as at 31 December 2017, as TBC's customers placed term deposits in Lari due to higher interest rates. U.S. dollar-denominated deposits represented 86.1% of deposits in foreign currencies as at 31 March 2019, compared to 85.7% as at 31 December 2018, 84.2% as at 31 December 2017 and 83.9% as at 31 December 2016.

Customer accounts by maturity

The following table sets out information on the maturity profile of deposits held by TBC Bank as at the dates indicated based on their expected maturity:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
					(unaudited)			
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Less than three months	949,708	10.2%	1,007,472	10.7%	846,121	10.8%	724,083	11.2%
Between three months and one year	118,832	1.3%	129,666	1.4%	137,146	1.8%	154,672	2.4%
Over one year	8,225,916	88.5%	8,307,608	88.0%	6,852,056	87.5%	5,582,827	86.4%
Customer accounts	**9,294,456**	**100%**	**9,444,746**	**100%**	**7,835,323**	**100%**	**6,461,582**	**100%**

Deposits less than three months decreased by GEL 57.8 million, or 5.7%, to GEL 949.7 million as at 31 March 2019, from GEL 1,007.5 million as at 31 December 2018, GEL 846.1 million as at 31 December 2017 and GEL 724.1 million as at 31 December 2016. The increase in 2018 was mainly due to increases in the balances of several corporate customers.

Deposits with maturities of over one year represent the largest portion of the deposits held by TBC Bank and decreased by GEL 81.7 million, or 1.0%, to GEL 8,225.9 million, as at 31 March 2019, having increased by GEL 1,455.6 million, or 21.2%, to GEL 8,307.6 million as at 31 December 2018 from GEL 6,852.1 million as at 31 December 2017, and having increased by GEL 1,269.2 million, or 22.7%, from GEL 5,582.8 million as at 31 December 2016.

Customer accounts by sector

The following table sets out the composition of TBC's deposits by reference to the economic sector of the customer, as at the dates indicated:

	As at 31 March 2019		As at 31 December					
			2018		2017		2016	
					(audited)			
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Individuals	4,914,928	53%	5,103,971	54%	4,378,265	56%	3,748,151	58%
Government sector	786,035	8%	531,964	6%	330,356	4%	140,852	2%
Construction	490,453	5%	613,973	7%	377,944	5%	222,372	3%
Financial Services	475,139	5%	397,653	4%	398,278	5%	501,591	8%
Trade	470,573	5%	550,527	6%	209,339	3%	305,022	5%
Energy & Utilities	411,620	4%	417,037	4%	429,722	5%	283,497	4%
Transportation	388,909	4%	486,939	5%	376,333	5%	188,388	3%
Services	334,038	4%	360,084	4%	236,128	3%	274,138	4%
Real Estate	192,618	2%	207,227	2%	119,507	2%	82,893	1%
Healthcare	102,726	1%	76,464	1%	106,439	1%	64,493	1%
Hotels and Leisure	84,393	1%	102,529	1%	174,777	2%	104,066	2%
Agriculture	35,198	0%	35,884	—	29,199	—	37,850	1%
Metals and Mining	14,537	0%	12,479	—	16,976	—	22,817	—
Food Industry	—	—	—	—	175,676	2%	82,984	1%
Automotive	—	—	—	—	71,628	1%	53,865	1%
Communication	—	—	—	—	50,059	1%	56,787	1%
Other	593,289	6%	548,015	6%	354,697	5%	291,816	5%
Total customer accounts	**9,294,456**	**100%**	**9,444,746**	**100%**	**7,835,323**	**100%**	**6,461,582**	**100%**

TBC's two largest sources of deposits are individuals' deposits, which accounted for 53%, 54%, 56% and 58% of total deposits as at 31 March 2019 and 31 December 2018, 2017 and 2016, respectively, deposits held by customers in the government sector, which accounted for 8%, and 6% of total deposits as at 31 March 2019 and 31 December 2018, respectively and deposits held by customers in the construction sector, which accounted for 5%, and 7% of total deposits as at 31 March 2019 and 31 December 2018, respectively.

As at 31 March 2019, TBC's largest customer accounted for 5.8% of total deposits, and TBC's 20 largest customers accounted for 22.8% of total deposits, compared to 3.9% and 20.0%, respectively, as at 31 December 2018, 2.1% and 19.2%, respectively, as at 31 December 2017 and 2.0% and 16.8%, respectively, as at 31 December 2016. As at 31 March 2019, the "liquidity adjusted" deposits (deposits adjusted to deduct amounts required for liquidity purposes pursuant to the NBG's liquidity risk management guidelines) of TBC's 10 largest and 20 largest depositors accounted for 7.3% and 9.8%, respectively, of the aggregate total of TBC's liquidity adjusted deposits and other liabilities.

Other sources of funding

Amounts due to other banks

Amounts due to other banks represented 2.5% of TBC's total liabilities as at 31 March 2019, compared to 1.2% as at 31 December 2018, 0.8% as at 31 December 2017 and 3.5% as at 31 December 2016. Amounts due to other banks increased, in absolute terms, by GEL 161.3 million, or 101.2%, to GEL 320.8 million as at 31 March 2019 from GEL 159.4 million as at 31 December 2018, after having increased, in 2018, by GEL 73.2 million, or 84.9% from GEL 86.2 million as at 31 December 2017, and in 2017 decreased by GEL 231.1 million, or 72.8%, from GEL 317.3 million as at 31 December 2016.

Amounts due to other banks by type of account

The following table sets out the composition of TBC's amounts due to other banks by type of account as at the dates indicated:

	As at 31 March 2019		As at 31 December 2018		2017		2016	
	(unaudited)		(audited)					
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Correspondent accounts and overnight placements	18,808	5.9%	23,273	14.6%	21,777	25.3%	23,271	7.3%
Deposits from banks	214,538	66.9%	136,161	85.4%	64,441	74.7%	176,443	55.6%
Short-term loans from banks	87,436	27.3%	—	—	—	—	117,592	37.1%
Total amounts due to other banks	**320,782**	**100%**	**159,434**	**100%**	**86,218**	**100%**	**317,306**	**100%**

The increase as at 31 March 2019 compared to as at 31 December 2018 in total amounts due to other banks was primarily due to the increased liquidity of the Lari in the first quarter of 2019. The increase in total amounts due to other banks as at 31 December 2018 were primarily due to increases in deposits from banks, aligned with TBC's short term funding needs. The decrease in total amounts due to other banks as at 31 December 2017, compared to 31 December 2016, was primarily due to reduced deposits from banks and repayment of short-term loans, due to TBC Bank's high liquidity during the period and the reduced demand for additional interbank funding.

Amounts due to other banks by currency

The following table sets out the composition of TBC's amounts due to other banks, by currency, as at the dates indicated:

	As at 31 March 2019		As at 31 December 2018		2017		2016	
				(unaudited)				
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Lari	145,150	45.2%	48,751	30.6%	20,891	24.2%	201,766	63.6%
Foreign currencies	175,632	54.8%	110,683	69.4%	65,327	75.8%	115,540	36.4%
Amounts due to other banks	**320,782**	**100%**	**159,434**	**100%**	**86,218**	**100%**	**317,306**	**100%**

Amounts due to other banks were comprised 45.2%, 30.6%, 24.2% and 63.6% in Lari as at 31 March 2019 and 31 December 2018, 2017 and 2016, respectively. Amounts due to other banks were represented by 54.8%, 69.4%, 75.8% and 36.4% in foreign currencies as at 31 March 2019 and 31 December 2018, 2017

and 2016, respectively. Variations in the proportions that Lari- and foreign currency-denominated amounts bear to one another in TBC's total portfolio of amounts due to other banks are driven primarily by changes in TBC's liquidity levels, which often create a need to shift excess liquidity in one currency to interbank borrowings denominated in another. The majority of foreign currency-denominated amounts due to other banks are denominated in U.S. dollars, which accounted for 52.7% of foreign currency-denominated amounts due to other banks as at 31 March 2019, compared to 37.9% as at 31 December 2018, 96.6% as at 31 December 2017 and 88.3% as at 31 December 2016.

Other borrowed funds

Other borrowed funds comprise liabilities of TBC to certain international and financial institutions.

The following table sets out a breakdown of TBC's other borrowed funds by lender as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)		(audited)					
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Foreign banks and international financial institutions	2,180,964	92.0%	2,065,560	71.9%	1,591,778	62.2%	1,412,095	75.0%
Local banks and financial institutions	153,535	6.5%	769,911	26.8%	908,271	35.5%	439,234	23.3%
Other financial institutions	37,304	1.6%	35,080	1.2%	55,533	2.2%	27,138	1.4%
Ministry of Finance	—	—	1,520	0.1%	2,914	0.1%	4,203	0.2%
Total other borrowed funds	**2,371,803**	**100%**	**2,872,071**	**100%**	**2,558,496**	**100%**	**1,882,670**	**100%**

Loans from foreign banks and IFIs represented 92.0% of other borrowed funds as at 31 March 2019, compared to 71.9% as at 31 December 2018, 62.2% as at 31 December 2017 and 75.0% as at 31 December 2016. Amounts due to foreign banks and IFIs increased, in absolute terms, by GEL 115.4 million, or 5.6%, to GEL 2,181.0 million as at 31 March 2019, having increased from GEL 2,872.1 million as at 31 December 2018 and GEL 2,558.5 million as at 31 December 2017. The increases in the first quarter of 2019 and years 2018 and 2017 were due to additional loan agreements completed during the period.

As at 31 March 2019, TBC's largest concentration of borrowings to a single lender was to FMO, which accounted for 20.0% of TBC's total amounts outstanding to all lenders. As at the same date, TBC's largest single loan from a lender (DEG) accounted for 6.2% of all such borrowings.

In addition to the amounts described above, on 19 June 2019, TBC Bank issued U.S.$300,000,000 of 5.75% unsecured Senior Notes due 19 June 2024. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*".

Syndicated and bilateral loans

TBC's borrowed funds include, from time to time, syndicated and bilateral loans. As at 31 March 2019, the amount outstanding under TBC's syndicated and bilateral loans was U.S.$813 million. As at the date of this Prospectus, TBC's syndicated and bilateral loans, with an outstanding principal amount equal to or greater than U.S.$10.0 million comprise the following:

- In November 2007, TBC Bank entered into a revolving credit agreement with European Bank for Reconstruction and Development ("**EBRD**") with a credit limit exposure of U.S.$27.0 million, which may be increased subject to EBRD approval. The facility serves to finance trade finance activities up to the tenor of three years. As at 31 March 2019, U.S.$24.0 million of principal was outstanding under this agreement.
- In December 2008, TBC Bank entered into a loan agreement with Govco LLC and Citibank, N.A. in a principal amount of U.S.$44.0 million. The loan, which was fully drawn, was used to finance TBC's SME business sector and mortgage loans, matures on 17 December 2021 and interest is paid quarterly at a rate of 8.63% (comprising a fixed fee, LIBOR rate and guarantee fee). This loan agreement contains covenants requiring TBC Bank to maintain certain ratios, including a capital adequacy ratio, a ratio of liquid assets to total liabilities and a loan loss reserves to past due loans ratio, as well to maintain TBC's net worth at a certain level. As at 31 March 2019, U.S.$10.0 million of principal was outstanding under this loan agreement.

- In February 2016, TBC Bank entered into a loan agreement with Asian Development Bank ("**ADB**") for a principal amount of U.S.$50.0 million. This five year senior facility was used to extend MSME lending outside Tbilisi. Under the loan agreement TBC Bank is required to comply with certain financial covenants, including but not limited to a capital adequacy ratio, liquidity ratio, non-performing loans ratio and exposure ratio. The facility matures on 14 July 2021 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$35.7 million of principal was outstanding under this loan agreement.
- In November 2016, TBC Bank entered into a framework agreement with European Fund for South East Europe ("**EFSE**") and signed two individual loan agreements under a framework for a principal amount of U.S.$15.0 million each, with the purpose to finance MSE and retail housing respectively. Under the framework agreement, TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio and non-performing loans ratio. The housing facility matures on 22 September 2026 and MSE on 22 September 2022. Interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$21.7 million of principal was outstanding.
- In December 2016, TBC Bank entered into a loan agreement with Netherlands Development Finance Company ("**FMO**") for a principal amount of U.S.$25.0 million. This seven year senior facility was used to finance the SME business segment. Under the loan agreement TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio and non-performing loans ratio. The loan matures on 15 June 2023 and interest is paid semi-annually at rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$22.5 million of principal was outstanding under this loan agreement.
- In December 2016, the former Bank Republic signed a term facility agreement with FMO for a principal amount of U.S.$30.0 million, which was inherited by TBC Bank after the merger in May 2017. The facility was used to finance the SME segment. Under the loan agreement TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio and non-performing loans ratio. The loan matures on 15 June 2022 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$26.3 million of principal was outstanding under this loan agreement.
- In March 2017, TBC Bank entered into three loan agreements with EBRD for the aggregate amount of the Lari equivalent of U.S.$100.0 million. Out of U.S.$100.0 million, U.S.$60.0 million was dedicated to finance SME projects that comply with at least one EU directive under the DCFTA, U.S.$20.0 million was dedicated to finance women in business and the remaining portion to financing SMEs. The facility was drawn down in two tranches in Lari, with a maturity of 28 April 2022 and 25 May 2023, respectively. Interest on the loan is paid quarterly at a rate of 3 month GEL CD quoted by NBG plus a specified margin. As at 31 March 2019, U.S.$89.2 million of principal was outstanding under this loan agreement.
- In May 2017, TBC Bank signed an amended and restated agreement with the European Investment Bank ("**EIB**"), inherited from the former Bank Republic after the merger with TBC Bank, for a principal amount of EUR 35.0 million, disbursed in U.S. dollars for a total amount of U.S.$46.5 million and maturing on 25 February 2023. The ten year facility was used to finance the SME segment. Under the finance contract TBC Bank is required to comply with certain financial covenants, including but not limited to a capital adequacy ratio, liquidity ratio, non-performing loans ratio and exposure ratio. As at 31 March 2019, U.S.$21.2 million of principal was outstanding under this loan agreement.
- In May 2017, TBC Bank signed an amended and restated agreement with IFC, inherited from the former Bank Republic after the merger with TBC Bank, for a principal amount of U.S.$20.0 million maturing on 15 December 2023. The ten year facility was used to finance residential mortgage lending operations. Under the finance contract TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio, non-performing loans ratio and exposure ratio. Interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$11.8 million of principal was outstanding under this loan agreement.
- In May 2017, TBC Bank signed an amended and restated agreement with IFC, inherited from the former Bank Republic after the merger with TBC Bank, for a principal amount of U.S.$30.0 million maturing on 15 December 2020. Interest is paid semi-annually at a rate of LIBOR plus a specified

margin. The facility was used to finance the SME segment. As at 31 March 2019, U.S.$13.3 million of principal was outstanding under this loan agreement.

- In May 2017, TBC Bank signed an amended and restated agreement with BlueOrchard Microfinance Fund ("**BOMF**"), inherited from the former Bank Republic after the merger with TBC Bank, for a principal amount of U.S.$25.0 million maturing on 30 August 2021. Interest is paid semi-annually at a rate of LIBOR plus a specified margin. Under the finance contract TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio and non-performing loans ratio. As at 31 March 2019, U.S.$15.0 million of principal was outstanding under this loan agreement.

- In June 2017, TBC Bank entered into a loan agreement with Micro, Small and Medium Enterprise Bonds S.A, as lender, and Symbiotics, as servicer, for a principal amount of the Lari equivalent of U.S.$18.5 million to support MSME segment financing. This synthetic GEL loan will be repaid in a bullet payment on the maturity date of 7 May 2020. Interest on the loan is paid semi-annually at a fixed rate. As at 31 March 2019, U.S.$16.5 million of principal was outstanding under this loan agreement.

- In August 2017, TBC Bank signed five loan agreements with responsAbility Investments AG, acting as Investment Manager on behalf of responsAbility Fair Agriculture Fund, responsAbility SICAV (Lux) acting for its sub-fund responsAbility SICAV (Lux) Financial Inclusion Fund, responsAbility SICAV (Lux) acting for its sub-fund responsAbility SICAV (Lux) Micro and SME Finance Leaders, responsAbility SICAV (Lux) acting for its sub-fund responsAbility SICAV (Lux) Mikro- und KMU-Finanz-Fonds, responsAbility Management Company S.A. acting in its own name for responsAbility Micro and SME Finance, for the aggregate principal amount of U.S.$41.8 million. The loan matures on 23 August 2022 and interest is paid semi-annually at rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$27.1 million of principal was outstanding under the loan agreements.

- In October 2017, TBC Bank entered into a syndicated term facility agreement with FMO for a principal amount of U.S.$106.0 million. The facility was used to finance MSME segment and trade finance projects. Under the loan agreement TBC Bank is required to comply with the certain financial covenants, including a capital adequacy ratio, liquidity ratio, non-performing loans ratio. The loan has maturity profiles of three, five and seven years and terminates between 19 October 2020 and 19 October 2024. Interest is paid semi-annually at rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$106.5 million of principal was outstanding under this loan agreement.

- In November 2017, TBC Bank entered into a loan agreement with OEB for a principal amount of U.S.$30.0 million. This ten year senior facility was used to finance the MSME segment presence in rural areas, MSME activities in tourism (including the hospitality sector) and women owned enterprises. Under the loan agreement TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio and non-performing loans ratio. The loan matures on 19 November 2027. Interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$30.0 million of principal was outstanding under this loan agreement.

- In December 2017, TBC Bank signed an individual loan agreement with EFSE for a principal amount of the Lari equivalent of U.S.$20.0 million. This synthetic local currency facility was used to finance micro and small enterprises. The facility matures on 15 December 2022 and interest is paid semi-annually at a rate of 6-month T-Bills plus a specified margin. As at 31 March 2019, GEL 50.9 million of principal was outstanding under the loan agreement.

- In June 2018, TBC Bank entered into a loan agreement with the Black Sea Trade and Development Bank ("**BSTDB**") for a principal amount of GEL 120.0 million. This loan, which was fully drawn, was used by TBC to finance the MSME business segment. This loan will be repaid in a bullet payment on the maturity date of 20 June 2021. The interest on the loan is paid quarterly at a rate of 3 month GEL CD quoted by NBG plus a specified margin. As at 31 March 2019, GEL 120.0 million of principal was outstanding under this loan agreement.

- In June 2018, TBC Bank entered into a loan agreement with the Deutsche Investitions- und Entwicklungsgesellschaft mbH ("**DEG**") for a principal amount of U.S.$70.0 million. This loan, which was fully drawn, was used to finance the MSME business segment, matures on 15 August 2025 and

interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$70.0 million of principal was outstanding under this loan agreement.

- In August 2018, TBC Bank entered into a loan agreement with the China Development Bank for a principal amount of U.S.$50.0 million. This loan was fully drawn and matures on 19 September 2021 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$50.0 million of principal was outstanding under this loan agreement.
- In September 2018, TBC Bank entered into a finance contract with EIB for a principal amount of EUR 30.0 million. This loan was drawn in U.S. dollars for a total amount of U.S.$34.0 million, and matures on 2 March 2026. This loan was utilised by TBC to finance the MSME business segment. Interest on the loan is paid semi-annually at a rate of LIBOR plus a specified margin. Under the finance contract TBC Bank is required to comply with certain financial covenants, including a capital adequacy ratio, liquidity ratio and non-performing loans ratio and exposure ratio. As at 31 March 2019, U.S.$34.0 million of principal was outstanding under this loan agreement.
- In October 2018, TBC Bank entered into a loan agreement with FMO for a principal amount of GEL 103.0 million. This loan, which was fully drawn, was used by TBC to finance the Youth borrowers. This loan will be repaid in a bullet payment on the maturity date of 20 November 2023. The interest on the loan is paid quarterly at a rate of 3 month GEL CD quoted by NBG plus a specified margin. As at 31 March 2019, GEL 103.0 million of principal was outstanding under this loan agreement.

As at the date of this Prospectus, TBC is in compliance with all financial covenants contained in the above mentioned bilateral, syndicated and multilateral loans. In addition to financial covenants, TBC Bank is also subject to various other customary covenants under its loan and facility agreements (although these vary amongst the agreements), including requirements to obtain lender consent prior to any changes in TBC Bank's legal or beneficial ownership or other change of control, and restrictions on mergers, reorganisations and certain sales and transfers of assets (including to other TBC group companies).

Other borrowed funds by maturity

The following table sets out information on the expected maturity profile of TBC's other borrowed funds as at the dates indicated:

	As at 31 March 2019		**As at 31 December**					
			2018		**2017**		**2016**	
	(unaudited) (GEL thousands)	**(%)**	**(GEL thousands)**	**(%)**	**(GEL thousands)**	**(%)**	**(GEL thousands)**	**(%)**
Between one and three months	204,628	8.6%	775,014	27.0%	1,052,956	41.2%	484,304	25.7%
Between three months and one year	311,800	13.1%	271,058	9.4%	349,283	13.7%	254,983	13.5%
Between one and five years	1,672,421	70.5%	1,653,575	57.6%	1,014,480	39.7%	988,857	52.5%
Over five years	182,954	7.7%	172,424	6.0%	141,777	5.5%	154,526	8.2%
Total other borrowed funds	**2,371,803**	**100%**	**2,872,071**	**100%**	**2,558,496**	**100%**	**1,882,670**	**100%**

Subordinated debt

Subordinated debt comprises unsecured obligations of TBC, subordinated in right of payment to all present and future senior indebtedness and certain other obligations of TBC.

Subordinated debt by type

The following table sets out a breakdown of TBC's subordinated debt, by IFI, as at the dates indicated:

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		(audited)	
	(GEL thousands)			
FMO	81,007	78,191	92,222	93,891
DEG	20,832	20,100	46,564	47,448
KfW	13,146	12,898	12,898	12,899
GGF	40,239	40,983	39,554	40,335
EFSE	40,242	94,699	39,607	40,391
BOMF	82,181	79,846	—	—
ADB	139,672	135,482	130,822	133,417
GCPF	69,048	67,211	—	—
Other	177,963	121,509	65,121	—
Total subordinated debt outstanding	**664,330**	**650,919**	**426,788**	**368,381**

TBC's subordinated debt is comprised of financing arrangements entered into with DEG, FMO, KfW, ADB, GCPF, responsAbility, BOMF, the Green for Growth Fund (the "**GGF**") and the EFSE and subordinated loans from individuals. As at the date of this Prospectus, TBC's subordinated debt, with an outstanding principal amount equal to or greater than U.S.$10 million, is comprised as follows:

- In August 2013, TBC Bank entered into a subordinated term facility agreement with FMO in a principal amount of U.S.$35.0 million. The loan was used to strengthen TBC Bank's tier 2 capital, matures on 15 April 2023 and interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$28.6 million was outstanding under this facility agreement.
- In December 2015, TBC Bank entered into subordinated loan agreements with the EFSE in the amount of U.S.$15 million and the GGF for another U.S.$ 15.0 million. Funds from the GGF have been fully drawn, whereas the first tranche in the amount of U.S.$7.5 million was drawn from the EFSE in December 2015 and the second tranche in the amount of U.S.$ 7.5 million was drawn from the EFSE in March 2016. The loans were used to further strengthen TBC Bank's capital adequacy, enabling its continued growth in accordance with its strategy. Both loan facilities mature between 18 December 2025 and 15 March 2026, respectively, and qualify as Tier II capital under current regulations. Interest is paid semi-annually at a rate of LIBOR plus a specified margin. As at 31 March 2019, U.S.$15.0 million was outstanding under the GGF facility agreement, U.S.$7.5 million was outstanding under the first tranche of the EFSE facility agreement and U.S.$7.5 million was outstanding under the second tranche of the EFSE facility agreement.
- In February 2016, TBC Bank entered into a subordinated term facility agreement with ADB in a principal amount of U.S.$50.0 million. The 10 year loan, which will be used to strengthen TBC Bank's tier 2 capital, has a two year availability period with interest paid semi-annually at a rate of LIBOR plus a specified margin. TBC Bank is required under this loan agreement to comply with prudential ratios required from time to time by NBG regulations and a net non-performing loan ratio. As at 31 March 2019, U.S.$50.0 million was outstanding under this facility agreement.
- In November 2018, TBC Bank entered into a subordinated loan agreement with GCPF in a principal amount of U.S.$25.0 million. The 10-year loan, which will be used to strengthen TBC Bank's tier 2 capital. TBC Bank is required under this loan agreement to comply with prudential ratios required from time to time by NBG regulations, as well as other financial covenants, including but not limited to a net non-performing loan ratio, capital adequacy ratio and net loan to deposit ratio. As at 31 March 2019, U.S.$25.0 million was outstanding under this facility agreement.
- In November 2018, TBC Bank entered into a subordinated loan agreement (which was converted from an existing promissory note) with responsAbility SICAV (Lux) acting for its sub-fund responsAbility SICAV (Lux) Financial Inclusion Fund; responsibility Management Company S.A. acting in its own name on behalf of the investment fund responsAbility Micro and SME Finance Fund; responsAbility SICAV (Lux) acting for its sub-fund responsAbility SICAV (Lux) Microfinance Leaders in an aggregate amount of U.S.$10.0 million. The 10 year loan, which will be used to strengthen TBC Bank's tier 2 capital. TBC Bank is required under this loan agreement to comply with prudential ratios required from time to time by NBG regulations, as well as other financial covenants,

including but not limited to a net non-performing loan ratio, capital adequacy ratio and net loan to deposit ratio. As at 31 March 2019, U.S.$10.0 million was outstanding under this facility agreement.

- In December 2018, TBC Bank entered into a subordinated loan agreement with BOMF in a principal amount of U.S.$30.0 million. The portion of the facility with the principal amount of U.S.$15.0 million matures on 14 December 2025 and the remaining portion U.S.$15.0 million matures on 14 December 2028. The facility will be used to strengthen TBC Bank's tier 2 capital. TBC Bank is required under this loan agreement to comply with certain financial covenants, including a net non-performing loan ratio, capital adequacy ratio and Liquidity ratio. As at 31 March 2019, U.S.$30.0 million was outstanding under this facility agreement.
- In December 2018, TBC Bank entered into a subordinated loan agreement with EFSE in a principal amount of U.S.$20.0 million. The 10 year loan, which will be used to strengthen TBC Bank's tier 2 capital. TBC Bank is required under this loan agreement to comply with certain financial covenants, including a net non-performing loan ratio, capital adequacy ratio and NSFR. As at 31 March 2019, U.S.$20.0 million was outstanding under this facility agreement.
- In September 2016, JSC Progress Bank entered into a subordinated bond agreement with Fidelis Management LLC and Alpha Value Management Limited in a principal amount of EUR 16.0 million. In September 2016, as a result of transfer of assets and liabilities between JSC Progress Bank and TBC Bank, JSC Progress Bank's rights and obligations under the bond agreement were transferred to TBC Bank. Initially, the term of the bond was eight years, but was decreased to five years after the disbursement of the third tranche of the principal amount. The bond bears an annual interest rate of 2% and is to be repaid in September 2021. In the event of any liquidation and/or significant financial distress of TBC Bank, the claims of the bondholder in respect of the principal of, and interest on, the bond are subordinated to the claims of depositors, unsecured creditors and other subordinated creditors of TBC Bank. The amount of the bond counts towards additional tier 1 capital of TBC Bank. As at 31 March 2019, EUR 16.0 million was outstanding under this facility agreement.
- In June 2017, TBC Bank entered into an unsecured subordinated loan agreement with an individual. The principal amount of the loan, U.S.$11.0 million, was used to supplement TBC Bank's tier 2 capital and strengthen its capital adequacy. The loan matures in August 2023 and interest is paid on a monthly basis at an annual rate of 8%. As at 31 March 2019, U.S.$11.0 million was outstanding under this facility agreement.

As at the date of this Prospectus, TBC is in compliance with all financial covenants contained in the above-mentioned subordinated debt.

Subordinated debt by maturity

The following table sets out information on the expected maturity profile of TBC's subordinated debt as at the dates indicated:

	As at 31 March		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)							
	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)	(GEL thousands)	(%)
Between one and three months	26,783	4.0%	3,048	0.5%	3,470	0.8%	3,334	0.9%
Between three months and one year	9,512	1.4%	23,245	3.6%	49,694	11.6%	4,893	1.3%
Between one and five years	183,955	27.7%	182,986	28.1%	97,372	22.8%	125,174	34.0%
Over five years	444,081	66.8%	441,639	67.8%	276,251	64.7%	234,981	63.8%
Total subordinated debt outstanding	**664,332**	**100%**	**650,919**	**100%**	**426,788**	**100%**	**368,381**	**100%**

The following table sets out the maturity profile, by lender, of TBC's subordinated debt as at 31 March 2019:

	For the year ended 31 December										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						(unaudited) (GEL thousands)					
KFW	—	—	—	—	—	12,562	—	—	—	—	—
GGF	—	—	—	—	—	—	—	—	—	40,371	—
EFSE	—	—	—	—	—	—	—	—	—	20,186	20,186
FMO	—	—	17,127	17,127	17,127	17,127	17,127	8,564	—	—	—
DEG	—	—	—	—	20,186	—	—	—	—	—	—
ADB	—	—	—	—	—	—	—	—	—	—	134,570
GCPF	—	—	—	—	—	—	—	—	—	—	22,406
responsAbility	—	—	—	—	—	—	—	—	—	—	8,882
BOMF	—	—	—	—	—	—	—	—	—	44,408	10,093
Other	—	—	—	—	—	48,325	—	64,594	2,961	—	—

The following table sets out TBC's international borrowings, which are included in due to credit institutions, subordinated debt and debt securities in issue, as at 31 March 2019:

	IFI borrowings	Other borrowings	IFI subordinated debt	Other subordinated debt	Debt securities issued	Total
Balances *(GEL thousands)*	1,909,938	308,330	377,142	287,188	13,415	**2,896,013**
%	66.0%	10.6%	13.0%	9.9%	0.5%	**100.0%**

Contingent Liabilities and Other Off-Balance Sheet Arrangements

TBC enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the business needs of its customers. These instruments, which include guarantees and letters of credit, expose TBC to credit risk and are not reflected in TBC's consolidated balance sheet. TBC's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected by Management to expire without being drawn, the total amount may not necessarily represent future cash requirements of TBC.

The table below sets out details of TBC's consolidated credit commitments, guarantees and commercial letters of credit as at the dates indicated:

	As at 31 March 2019	As at 31 December		
		2018	2017	2016
	(unaudited)		(audited)	
		(GEL thousands)		
Performance guarantees issued	1,011,085	1,195,812	612,297	426,608
Financial guarantees issued	198,851	—	141,963	116,260
Undrawn credit lines	828,263	769,863	728,178	449,110
Letters of credit	90,626	105,972	106,919	154,842
Total credit related commitments and performance guarantees (before provision)	**2,128,825**	**2,071,647**	**1,589,357**	**1,146,820**
Provision for performance guarantees	(4,324)	(4,393)	(2,067)	(2,635)
Provision for credit related commitments and financial guarantees	(5,052)	(5,424)	(8,239)	(8,049)
Total credit related commitments and performance guarantees	**2,119,449**	**2,061,830**	**1,579,051**	**1,136,136**

See Note 37 to the Audited Consolidated Financial Statements and Note 24 to the Unaudited Consolidated Interim Financial Statements for details of other contingencies and commitments to which TBC is subject.

Net total credit related commitments increased by GEL 57.6 million, or 2.8%, to GEL 2,119.4 million as at 31 March 2019 from GEL 2,061.8 million as at 31 December 2018, primarily due to undrawn credit lines and letters of credit, which were partially offset by the increased financial and performance guarantees issued. Net total credit related commitments increased by GEL 482.8 million, or 30.6%, to GEL 2,061.8 million as at 31 December 2018 from GEL 1,579.1 million as at 31 December 2017, primarily due to the increase in undrawn credit lines and performance guarantees issued, which more than offset the decrease in financial guarantees issued. As at 31 December 2017, net total credit related commitments increased by GEL 442.9 million, or 39.0%, to GEL 1,579.1 million from GEL 1,136.1 million as at 31 December 2016, primarily due to the increase in undrawn credit lines, performance guarantees issued and financial guarantees issued, which was partially offset by a decrease in letters of credit.

As at 31 March 2019, the ten largest guarantees issued by TBC amounted to 34.4% of TBC's total guarantees issued and represented 18.7% of TBC's total equity, compared to 33.8% and 19.1%, respectively, as at 31 December 2018, 34.2% and 13.9%, respectively, as at 31 December 2017 and 37.2% and 12.9% as at 31 December 2016.

TBC's commitments related to undrawn credit lines increased by GEL 58.4 million, or 7.6%, to GEL 828.3 million as at 31 March 2019 from GEL 769.9 million as at 31 December 2018, after having increased by GEL 41.7 million, or 5.7%, from GEL 728.2 million as at 31 December 2017, and having increased by GEL 279.1 million, or 62.1%, in 2017 from GEL 449.1 million as at 31 December 2016. The increase in commitments related to undrawn credit lines as at 31 December 2018, compared to 31 December 2017, was the disbursement of credit lines during 2017 to several corporate customers. The increase in commitments related to undrawn credit lines as at 31 December 2017, compared to 31 December 2016, was broadly aligned with TBC's overall business growth.

The following table sets out the residual maturity of TBC's credit related commitments as at 31 March 2019:

	Residual maturity of credit related commitments and performance guarantees			
	Total	**Less than three months**	**Three to twelve months**	**Over one year**
		(unaudited) (GEL thousands)		
Performance guarantees	**4,324**	4,324	—	—
Financial guarantees issued	**5,052**	5,052	—	
Other credit related commitments	**106,334**	106,334	—	—
Total credit related commitments and performance guarantees	**115,710**	**115,710**	—	—

As at 31 March 2019, all of credit related commitments had a residual maturity of up to ninety days.

Provisions for contingent liabilities

The following table sets out TBC's provisions for issued guarantees and letters of credit as at the dates indicated:

	As at 31 March	**As at 31 December**		
	2019	**2018**	**2017**	**2016**
	(unaudited)		**(audited)**	
		(GEL thousands)		
Provision for performance guarantees	(4,324)	(4,393)	(2,067)	(2,635)
Provision for credit related commitments and financial guarantees	(5,052)	(5,424)	(8,239)	(8,049)
Total	**(9,376)**	**(9,817)**	**(10,306)**	**(10,684)**

Provisions for performance guarantees and credit related commitments and financial guarantees slightly decreased by GEL 0.4 million, to GEL 9.4 million as at 31 March 2019 from GEL 9.8 million as at 31 December 2018.

Provisions for contingent liabilities decreased in 2018, primarily due to the decrease in provisions for credit related commitments and financial guarantees. Provisions for performance guarantees increased by GEL 2.3 million, to GEL 4.4 million as at 31 December 2018 from GEL 2.1 million as at 31 December 2017, primarily due to an updated provisioning methodology implemented in the last quarter of 2018.

Provisions for contingent liabilities decreased in 2017 primarily due to the decrease in provision for performance guarantees, which increased by GEL 0.6 million, to GEL 2.1 million as at 31 December 2017 from GEL 2.6 million as at 31 December 2016, primarily due to the decrease in the outstanding amount of performance guarantees issued.

Capital and Capital Adequacy

As of 31 March 2019, TBC Bank's Basel III Tier 1 and Total Regulatory Capital Adequacy Ratios (CAR) stood at 13.8% and 19.1%, respectively, compared to the required levels of 11.9% and 16.9%. In 31 March 2019, TBC Bank's Basel III Tier 1 Capital amounted to GEL 1,746.7 million, up by GEL 68.0 million or 4.1%, compared to December 2018, due to net income generated during the period. TBC Bank's Basel III Total Regulatory Capital totalled GEL 2,421.5 million, up by GEL 70.2 million, or by 3.0%. The increase in Total Regulatory Capital was attributable to the net income generated during the period. Risk weighted assets amounted to GEL 12,689.7 million as of 31 March 2019, down by GEL 465.1 million, or 3.5%, compared to GEL 13,154.9 million as at 31 December 2018. 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 Deputy Chief Financial Officer (the "**CFO**") of TBC Bank.

TBC'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 TBC's ability to continue as a going concern. Additionally, TBC's capital management objectives entail ensuring that TBC Bank complies with the capital requirements set by the Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements.

TBC complied with all its internally and externally imposed capital requirements throughout 2016, 2017 and 2018. See "*Banking Sector and Banking Regulation in Georgia—Mandatory Prudential Ratios*".

As at 31 March 2019 and 31 December 2018 and 2017, TBC Bank's capital ratios under the NBG's Basel III regulation are as follows:

In thousands of GEL	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017
Tier 1 Capital	1,746,745	1,678,716	1,437,218
Tier 2 Capital	674,716	672,553	448,069
Total regulatory capital	**2,421,461**	**2,351,269**	**1,885,287**
Risk-weighted Exposures			
Credit Risk Weighted Exposures	11,162,746	11,458,497	9,754,146
Risk Weighted Exposures for Market Risk	10,002	179,381	28,802
Risk Weighted Exposures for Operational Risk	1,516,993	1,516,993	970,241
Total Risk-weighted Exposures	**12,689,741**	**13,154,871**	**10,753,189**
Tier 1 capital requirement[(1)]	**11.9%**[(2)]	**11.8%**[(3)]	**10.3%**[(4)]
Tier 1 Capital adequacy ratio	**13.8%**	**12.8%**	**13.4%**
Total Regulatory Capital adequacy requirement[(1)]	**16.9%**[(5)]	**16.7%**[(6)]	**12.9%**[(7)]
Total Regulatory Capital adequacy ratio	**19.1%**	**17.9%**	**17.5%**

Note:

(1) Tier 1 and total regulatory capital requirements comprise the pillar 1 minimum requirement, combined buffers and pillar 2 requirements.

(2) As of 31 March 2019, Tier 1 capital requirement comprises pillar 1 minimum requirement of 6.0% and combined buffer of 3.5%, and Pillar 2 requirements of 2.4%.

(3) As of 31 December 2018, Tier 1 capital requirement comprises pillar 1 minimum requirement of 6.0% and combined buffer of 3.5% and Pillar 2 requirements of 2.3%.

(4) As of 31 December 2017, Tier 1 capital requirement comprises Pillar 1 minimum requirement of 6.0% and combined buffer of 2.5% and Pillar 2 requirements of 1.8%.

(5) As of 31 March 2019, total regulatory capital requirement comprises Pillar 1 minimum requirement of 8.0% and combined buffer of 3.5% and Pillar 2 requirements of 5.4%.

(6) As of 31 December 2018, total regulatory capital requirement comprises pillar 1 minimum requirement of 8.0% and combined buffer of 3.5%, and Pillar 2 requirements of 5.2%.

(7) As of 31 December 2017, total regulatory capital requirement comprises Pillar 1 minimum requirement of 8.0% and combined buffer of 2.5% and Pillar 2 requirements of 2.4%

The breakdown of TBC Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as at 31 March 2019, 31 December 2018 and 31 December 2017 are given in the tables below:

	As at 31 March 2019	
In thousands of GEL	**Carrying Value**	**RW amount**
	(unaudited)	
Cash, cash equivalents, Interbank Exposures and Securities	3,799,165	1,552,799
Gross loans and accrued interests,	9,216,836	7,160,201
Repossessed Assets	51,064	51,064
Fixed Assets and intangible assets	571,455	287,235
Other assets	1,339,833	1,387,888
minus general provision, penalty and interest provision	(36,825)	(36,825)
Total	**14,941,528**	**10,402,362**
Total Off-balance	**2,774,392**	**760,384**
Market Risk	**10,001**	**10,001**
Operational Risk	**809,064**	**1,516,994**
Total Amount	**18,534,985**	**12,689,741**

	As at 31 December 2018	
In thousands of GEL	**Carrying Value**	**RW amount**
	(audited)	
Cash, cash equivalents, Interbank Exposures 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**

	As at 31 December 2017	
In thousands of GEL	**Carrying Value**	**RW amount**
	(audited)	
Cash, cash equivalents, Interbank Exposures 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**

Return on Assets and Equity

The following table sets out certain selected financial ratios of TBC for the periods indicated (all of which are unaudited):

	For the three months ended 31 March	For the year ended 31 December		
	2019	2018	2017	2016
	(unaudited) (GEL thousands except percentages)			
Average total assets	15,115,875	13,587,274	11,466,594	7,634,587
Average total equity	2,172,972	1,910,742	1,696,947	1,331,939
Underlying average total equity	2,172,972	1,920,830	1,701,972	1,326,442
Average total equity/average total assets (%)	14.2%	14.1%	14.8%	17.4%
Underlying average total equity/average total assets (%)	14.2%	14.1%	14.8%	17.4%
Return on assets[1] (%)	3.5%	3.2%	3.2%	3.4%
Underlying return on assets[2] (%)	3.5%	3.3%	3.2%	3.6%
Return on equity[3] (%)	24.7%	22.7%	21.4%	21.8%
Underlying return on equity[4] (%)	24.7%	23.5%	21.9%	21.0%
Dividend payout ratio[5]	N/A	26.4%	26.1%	25.2%
Total comprehensive income attributable to owners of TBC Bank	132,957	448,749	367,677	303,031
Underlying total comprehensive income attributable to owners of TBC Bank	132,957	466,175	376,962	278,095

Notes:

(1) Annual return on assets is (x) profit for the year, divided by (y) monthly average total assets. Quarterly return on assets is (a) profit for the period, divided by (b) average of total assets for the current and three previous months and annualised.

(2) Underlying return on average total assets equals underlying profit for the period divided by monthly average total assets for the same period, annualised where applicable.

(3) Annual return on equity is (x) profit for the year attributable to owners of TBC Bank, divided by (y) monthly average total equity attributable to owners of TBC Bank. Quarterly return on equity is (a) profit for the period attributable to owners of TBC Bank, divided by (b) monthly average of total equity attributable to owners of TBC Bank for the current and three previous months and annualised.

(4) Underlying return on average total equity 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.

(5) Dividend payout ratio is (x) dividends declared, divided by (y) consolidated profit for the previous year.

Average total assets increased by GEL 265.5 million, or 2.0%, to GEL 13,853.0 million for the three months ended 31 March 2019, from GEL 13,587.5 million for the year ended 31 December 2018. Average total assets increased by GEL 2,120.9 million, or 18.5%, to GEL 13,587.5 million for the year ended 31 December 2018 from GEL 11,466.6 million for the year ended 31 December 2017, primarily due to the increase in the average net loans and advances to customers and liquid assets. Average total assets increased by GEL 3,832.0 million, or 50.2%, to GEL 11,466.6 million for the year ended 31 December 2017 from GEL 7,634.6 million for the year ended 31 December 2016. This year-on-year increase was mainly due to an increase in the customer loan portfolio and increased liquidity in connection with the Bank Republic acquisition.

Return on assets (on an annualised basis) increased by 0.3 percentage points to 3.5% for the three months ended 31 March 2019 from 3.2% for the corresponding period in 2018, mainly due to the increase in net profit by GEL 103.0 million, or 23.8% (on an annualised basis). Return on assets remained stable at 3.2% for the year ended 31 December 2018 and 2017. Return on assets decreased to 3.2% for 2017 from 3.4% for 2016, primarily reflecting the increase in TBC's average total assets in connection with the Bank Republic acquisition.

TBC's average total equity increased by GEL 52.3 million, or 2.7%, to GEL 1,966.4 million for the three months ended 31 March 2019 from GEL 1,914.0 million for the year ended 31 December 2018, having increased by GEL 217.0 million, or 12.8% from GEL 1,696.9 million for the year ended 31 December 2017, primarily due to the increase in net income attributable to owners of TBC Bank. TBC's average equity increased by GEL 365.0 million, or 27.4%, to GEL 1,696.9 million for the year ended 31 December 2017

from GEL 1,331.9 million for the year ended 31 December 2016. This increase primarily reflected the acquisition of Bank Republic.

TBC's ROE (on an annualised basis) increased by 2.0 percentage points to 24.7% for the three months ended 31 March 2019 from 22.7% for the three months ended 31 March 2018, primarily due to the increase in TBC's profit during the period. TBC's ROE increased by 1.3 percentage points to 22.7% for the year ended 31 December 2018 from 21.4% for the year ended 31 December 2017, primarily due to the increase in TBC's net profit by GEL 70.5 million, or 19.4% from 2017 to 2018. TBC's ROE decreased in 2017, compared to 2016, as a result of an increase in total equity in connection with the Bank Republic acquisition.

DESCRIPTION OF BUSINESS

Overview

TBC Bank is the established leader in the Georgian banking sector, with a total market share of 38.4% of loans and 40.4% of customer deposits in Georgia as at 31 March 2019, according to NBG data. It held the number one position in total assets, total loans (to both individuals and legal entities) and total deposits (to both individuals and legal entities), according to NBG data as at 31 March 2019.

TBC offers a wide range of banking products and services to its retail, corporate and MSME clients. TBC's lending activities include providing business, mortgage, consumer and micro loans, as well as guarantees, letters of credit and overdrafts. TBC also offers current and savings accounts and term deposits, credit and debit cards, currency exchange facilities and other products. Apart from its core activities, TBC Bank offers leasing, investment banking and brokerage services through its subsidiaries. In addition, TBC has credit operations in Azerbaijan (TBC Kredit) and operations in Israel focused on deposit collection (TBC Invest).

TBC has an award-winning omni-channel distribution platform, with particular expertise in digital channels. TBC's distribution platform at 31 March 2019 comprised 148 branches, advanced internet and mobile banking applications and Georgia's first fully-digital bank, Space, launched in May 2018, as well as a call centre with the first voice biometric recognition system in Georgia and wide network of self-service terminals (3,320). See "*—Distribution Network*". In addition, TBC has one of the largest networks of ATMs and POS terminals in Georgia, consisting of 510 ATMs and 17,857 POS terminals.

TBC's operations are predominantly focused on the Georgian banking market, which operations accounted for 97.6% of TBC's total assets and 98.5% of its profit as at and for the three months ended 31 March 2019. TBC's retail, corporate and MSME segments are its key business areas, accounting for 44.2%, 32.5% and 23.4% of its total gross loans as at 31 March 2019, respectively.

As at 31 March 2019, TBC Bank had total assets of GEL 15.1 billion, total gross loans and total deposits of GEL 10.4 billion and GEL 9.3 billion, respectively, and total equity of GEL 2.2 billion. TBC's profit was GEL 132.2 million for the three months ended 31 March 2019 and GEL 433.3 million for the year ended 31 December 2018. TBC's cost to income and annualised ROAE ratios were 36.7% and 24.7%, respectively, for the three months ended 31 March 2019 and 37.1% and 22.7% (or underlying ROAE of 23.5%), respectively, for the year ended 31 December 2018. As at 31 March 2019, TBC Bank had 6,851 employees.

TBC Bank is financially robust and has a high quality balance sheet, with a net loan to deposit plus IFI funding ratio of 89.5%, a Non-performing Loan to gross loan portfolio ratio of 3.3%, a Non-performing Loan coverage ratio of 100.1% and a net stable funding ratio of 123.8% as at 31 March 2019. TBC's Tier 1 and Total Regulatory Capital ratios per Basel III guidelines stood at 13.8% and 19.1%, respectively, well above the corresponding minimum requirements of 11.9% and 16.9% set by the NBG. Management believes that these capital levels provide a strong capital base to support TBC. See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

On 16 April 2019, Fitch affirmed TBC Bank's Long-term Issuer Default Rating at "BB−" and revised its outlook to stable from positive. Moody's upgraded TBC Bank's local currency deposit rating and foreign currency deposit rating to "Ba2" and "Ba3", respectively, on 13 September 2017.

TBC Bank has won numerous local and international awards for its business, customer service and innovative technology applications, which include 34 awards for "Best Bank in Georgia" since 2002 from *The Banker*, *EMEA Finance*, *Euromoney* and *Global Finance*. Furthermore, TBC Bank has won multiple digital awards in different categories from *Global Finance*, including five global and 25 countrywide and regional (CEE) awards since 2012. In addition, in 2018, TBC's Ti-transfer, an innovative and safe money transfer system via chat extension, was named "Best Alternative Payments Project" at the Payments Awards ceremony organised by FStech and Retail Systems.

TBC Bank Group PLC is the UK-incorporated parent company of TBC Bank. The Parent Company is listed on the premium listing segment of the London Stock Exchange. The Parent Company is also the parent company of JSC TBC Insurance, TBC International LLC and Inspired LLC, which are sister companies of TBC Bank. TBC Insurance, a wholly owned subsidiary of TBC Bank Group PLC, was acquired in October 2016 and is TBC's main bancassurance partner. TBC International was established in 2019 with a purpose to unite all newly established ecosystems under one umbrella. Inspired LLC is a

leading payment platform in Uzbekistan trading under the Payme brand. The Parent Company acquired a 51% stake in the company in April 2019 in line with its strategy to expand its operations in Uzbekistan.

History

TBC Bank was founded in December 1992 by Mr. Mamuka Khazaradze who was joined shortly thereafter by Mr. Badri Japaridze. TBC Bank was incorporated as a joint stock company under the laws of Georgia and registered by Vake District Court under number 5/5-20 on 4 January 1996. TBC Bank operates under a general banking licence issued by the NBG on 20 January 1993. TBC's longstanding relationships with IFIs began with the entrance into certain debt financing arrangements in 1998, followed by the IFC and Deutsche Investitions und Entwicklungsgesellschaft (DEG) becoming shareholders of TBC Bank by each acquiring a 10% stake in 2000. With its business initially dedicated to servicing corporate clients, TBC in 2006 began expanding its strategic focus by offering products and services to retail and MSME business customers. The EBRD, the FMO, JP Morgan plc and Ashmore became shareholders of TBC Bank in 2009 as part of a recapitalisation after the severe economic downturn in 2008 and 2009, in connection with which the IFIs also provided equity and debt financing to support TBC's growth over the years. In May 2011, TBC continued its growth by acquiring an 80% shareholding in Bank Constanta, which specialised in micro-finance banking in Georgia and which was merged into TBC Bank in January 2015. In June 2014, TBC conducted an initial public offering by the way of a listing of its GDRs on the regulated market of the London Stock Exchange. In August 2016, TBC Bank Group PLC, TBC's parent company, was admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange following the successful completion of a tender offer. TBC's GDR programme was cancelled following the tender offer. Since 19 June 2017, TBC Bank Group PLC's shares have been also included in the FTSE 250 Index. TBC further strengthened its banking operations in Georgia in May 2017 with the completion of the acquisition of Bank Republic, at the time the third largest bank in Georgia by total loans, from Societe Generale, which added an additional 41 branches and 160 ATMs to TBC's distribution network and 380,000 customers to TBC's client base.

Key Strengths

Management believes that TBC has the following key strengths that will enable it to maintain and strengthen its position as the leading Georgian banking group:

Leading positions in an attractive market

TBC Bank is the largest bank in the Georgian banking market by all key metrics according to NBG data. As at 31 March 2019, TBC Bank was the largest retail bank in Georgia by value of deposits of individuals (with a 39.5% market share) and loans to individuals (with a 39.3% market share). At the same time, TBC Bank was the largest bank for businesses, with loans to, and deposits of, legal entities (37.4% and 41.4% market share, respectively). As of 31 March 2018, TBC Bank, together with the second largest Georgian bank, held more than 72.2% and 75.0% of all loans and deposits in Georgia, respectively, with a substantial gap between them and all other banks in Georgia. At the same date, TBC's total assets amounted to GEL 14.7 billion, which translated into a 37.4% market share.

Georgia benefits from strong growth potential, and its economy has demonstrated high resilience in recent years. According to Geostat, the CAGR of Georgia's real GDP for the five year period ended 31 December 2018 was 4.0%, with preliminary GDP growth in the first quarter of 2019 estimated at 4.7%. According to the IMF, in 2019-2020 the economy is expected to expand at 4.6% and 5.0%, respectively, while in 2021 - 2024 the projection further increases to an average of 5.2%. Georgia has an international reputation as a country with a favourable investment environment, being ranked in the World Bank & IFC Doing Business Reports 2019 as the sixth easiest country in the world in which to start a business. TBC has benefited from Georgia's recent strong macroeconomic performance and Management believes that TBC is well placed to continue to benefit from projected growth in Georgia as a consequence of TBC's strong market share across its business segments, its focus on continued product development, and its award-winning omni-channel platform and innovative digital solutions, among other factors.

Consistent track record of growth and profitability

TBC's successful execution on its strategy of focusing on certain key products and services has driven strong growth and profitability, allowing TBC to maintain robust margins despite increasing margin pressure in the market generally. In the two-year period 2017 - 2018, TBC achieved a CAGR of the

aggregate value of total loans to customers of 18.7%. In the same period, TBC achieved a profit CAGR of 20.2% whilst maintaining a high ROAE of above 21.0% during that same period (in an environment of increasing capital requirements, which typically increase the cost of lending). TBC also maintained solid margins while achieving this growth, recording NIMs of 6.8%, 6.5% and 7.8% in the years ended 31 December 2018, 2017 and 2016, respectively. TBC's strong performance was further reinforced by continuous improvement in cost efficiency, which was reflected in the declining cost to income ratio of 37.1% in 2018 compared to 45.5% in 2016 (or underlying cost to income ratio of 42.6%).

Integrated business model focused on every segment of the financial services market

TBC has a streamlined business with a clear strategic focus on its core activities in the financial services market, primarily engaging in banking and related activities, as well as other services that enhance, support and generate synergies with, its core business. As of 31 March 2019, approximately 99.6% of TBC's assets were related to banking, leasing, investment banking and brokerage activities. This dedicated approach enables TBC to focus on its areas of expertise and seek for new ways to fine-tune its value proposition.

Strong brand, superior customer experience and an award-winning franchise

TBC is one of the most well-known and trusted brands in Georgia driven by, amongst other factors, its high level of customer service, strong reputation, longstanding relationships with customers, focus on social responsibility and pursuit of innovation. TBC Bank has won numerous local and international awards for its business, customer service and innovative technology applications, which include 34 awards for "Best Bank in Georgia" since 2002 from *The Banker*, *EMEA Finance*, *Euromoney* and *Global Finance*. Furthermore, TBC Bank has won multiple digital awards in different categories from *Global Finance*, including five global and 25 countrywide and regional (CEE) awards since 2012.

Management believes that superior customer experience is one of the differentiators of TBC. According to surveys conducted by the independent research companies ACT and IPM, TBC Bank has had the highest customer satisfaction score in the Georgian banking sector each year between 2015 and 2018 and has maintained a leading position among other service providers in Georgia. According to a survey conducted by independent research company IPM in December 2018, TBC Bank was named the "Best Service Company in Georgia" with an overall score of 50%, compared to the 47% score for a leading competitor bank, a 12% score for each of a leading telecom company and a leading pharmaceutical company, and an 11% score for a leading insurance company.

In order for TBC to continue to develop this advantage, Management plans continuous improvements, including the design of branches and remote access channels, personnel professionalism, wide product range and supplementary services and fine-tuning in its digital capabilities.

A leading innovative omni-channel distribution platform, with best-in-class digital channels

TBC services its clients through a diversified omni-channel system comprising one of the largest networks of ATMs, POS terminals and self-service terminals in Georgia, customer centric branches, award-winning internet and mobile banking and best-in-class call centre. TBC's percentage distribution of transactions by channel for the three months ended 31 March 2019 is set out for each channel in the table below:

	For the three months ended 31 March 2019
ATMs	30%
Mobile Banking	29%
POS terminals	21%
Internet banking	11%
Branches	8%
Other	1%
Total	**100%**

Management believes that TBC's omni-channel platform drives higher sales of TBC's financial products and greater operational and transactional volumes. By 31 March 2019, 91.9% of retail customer transactions were conducted remotely outside TBC's branches. As at 31 March 2019, TBC's penetration ratio (calculated as the number of "active users" who have opened the application at least once during the

preceding three months divided by the total number of active retail clients) was 41.9% for internet or mobile banking users and 36.7% for mobile banking users. Furthermore, in 2018, TBC's internet bank was named the world's "Best Integrated Consumer Banking Site" by *Global Finance* in addition to winning multiple digital country and regional (CEE) awards. TBC's growth in digital channels is set out in the tables below:

	For the three months ended 31 March			
	2019	**2018**	**2017**	**2016**
Number of transactions in digital channels (in thousands)				
Internet banking transactions	2,499	2,449	2,098	1,669
Mobile banking transactions	9,194	5,315	2,622	1,150
Distribution of sales in channels[(1)]				
Digital channels (internet and mobile banking)	45%	30%	24%	27%
Branches and call centre	55%	70%	76%	73%
Percentage of selected product sales in digital channels				
Deposits	72%	59%	50%	—
Pre-approved loans	23%[(2)]	35%	14%	—
Debit cards	26%	14%	—	—

Notes:

(1) Products being offered through remote channel include pre-approved loans, credit cards, limit increases and opening of accounts.

(2) The decrease is due to new, more conservative lending criteria introduced by the NBG in January 2019, which resulted in a slowdown in consumer lending.

	As at 31 March			
	2019	**2018**	**2017**	**2016**
Number of active users (in thousands)				
Internet or mobile banking	511	447	298	220
Mobile banking	447	365	219	121
Penetration ratios of digital channels				
Internet or Mobile Banking Penetration Ratio	42%	38%	34%	32%
Mobile Banking Penetration Ratio	37%	31%	25%	17%

TBC has continuously invested in developing innovative products and efficient new client servicing capabilities and continues to implement new ways of delivering its products and services without unnecessary expense or branch network expansion. In March 2017, TBC introduced Ti-bot, the first Georgian-speaking chatbot, which allows customers to perform simple banking transactions and provides information about TBC products, entertainment events and the weather forecast. As of 31 March 2019, Ti-bot had attracted around 250,000 customers. Ti-bot's transfer system, Ti-Transfer, was developed in partnership with industry leader Pulsar AI and named "Best Alternative Payments Project" at the 2018 Payment Awards ceremony organised by FStech and Retail Systems. In May 2018, TBC launched Georgia's first fully-digital bank, Space. Space harnesses an intuitive mobile application to provide digitally-savvy customers with a full suite of daily products without the need to visit a branch. Between its launch in May 2018 and 31 March 2019, Space attracted approximately 115,000 clients and 292,400 downloads, and has an outstanding loan portfolio of approximately GEL 16.8 million as of 31 March 2019.

TBC applies an innovative approach to its physical locations and believes it has one of the most productive, modern and visually appealing branch networks in Georgia. TBC invests significant care in the appearance of its branches, with lighting, colour and layout specifically designed to increase customer satisfaction.

Resilient and high quality balance sheet

TBC's primary source of funding is deposits (which accounted for 72.0% of total liabilities as at 31 March 2019), of which retail deposits accounted for 52.9% of total deposits. As at 31 March 2019, TBC's gross loan to deposit ratio was 111.5%, and its ratio of net loans to the sum of customer deposits and IFI loans was 89.5%. Other sources of funding are amounts due to credit institutions (including a range of wholesale funding from various credit institutions and IFIs and amounts due to other banks), which accounted for 20.9% of total liabilities as at 31 March 2019, and subordinated debt from IFIs (including shareholders of

the Parent Company), which accounted for 5.1% of total liabilities as at 31 March 2019. TBC has historically experienced low customer withdrawals, even during the conflict with Russia in 2008 and the global financial crisis.

TBC has a well-diversified loan portfolio split across its segments, with retail, corporate and MSME loans accounting for 44.2%, 32.5% and 23.4%, respectively, of TBC's total gross loans as at 31 March 2019, and across all regions and major economic and industry sectors in Georgia. As at 31 March 2019, TBC Bank's loans to customers within its corporate segment were spread across major industries, with 24.3% of loans to the energy and utilities sector, 13.6% to the hospitality and leisure sector, 13.6% to the real estate sector, 12.3% to the food industry, 6.5% to communication and the remaining 29.7% to the other sectors. Gross loans to related party customers accounted for only 0.1% of total capital calculated in accordance with IFRS as at 31 March 2019.

As a result of its prudent risk management policies and proactive approach towards potential client payment vulnerabilities, TBC maintains a high quality loan portfolio. As at 31 March 2019, TBC's ratio of Non-performing Loans to total gross loans was 3.3%. Moreover, Management believes that TBC's Non-performing Loan coverage ratio (defined as loan loss provisions divided by Non-performing Loans), which was 100.1% as at 31 March 2019, provides substantial protection against potential future loan losses. See "*Lending Policies and Procedures—Non-performing and Restructured Loans and overdue finance leases*". In addition, TBC's loan portfolio is well secured, with 89% of the gross loan portfolio secured by collateral as at 31 March 2019.

As at 31 March 2019, TBC Bank had a Tier 1 capital adequacy ratio of 13.8% and a Total Regulatory Capital adequacy ratio of 19.1% in accordance with the NBG Basel III-based methodology, well above the minimum regulatory levels (including Pillar 1 and Pillar 2 buffer requirements) of 11.9% and 16.9%, respectively. See "*Selected Statistical and Other Information—Capital and Capital Adequacy".*

Experienced management team and strong corporate governance standards and corporate culture

TBC has an experienced management team with a proven track record in leading TBC's operations. The CEO joined TBC in 1993 and has served as CEO since 1998. All members of the Management Board have significant experience in the banking and finance industry, with most having at least 10 (and some more than 20) years of banking experience. In addition, five members of the Management Board have degrees from universities in Western Europe or the United States as well as experience working in global banks or IFIs. Mr. Butskhrikidze, the CEO, has also won the "Special Award for Responsible Capitalism in Adversity" from the FIRST organisation, been named "Best Businessman of the Year" by *Georgian Times,* and "CEO of the Year 2014" by *EMEA Finance.*

TBC is subject to the robust corporate governance standards for a premium listed company since 2016, when the shares of its UK incorporated holding company, TBC Bank Group PLC, were admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. TBC supplements compliance with these requirements with a robust internal corporate governance policy and compliance with the Corporate Governance Code.

TBC has a strong customer-centric and customer-oriented corporate culture, which Management believes translates into customer loyalty, profitability and sustainable growth. TBC's strong client-oriented culture is further solidified by strong staff loyalty, which is primarily driven by the professional development and career growth opportunities that TBC provides to its employees. Management considers staff loyalty and engagement to be TBC's core values, which TBC measures through regular surveys. The latest survey conducted in December 2018 demonstrated that TBC's engagement index and net promoter score were 87% and 66% respectively, outperforming their benchmarks.

Strategy

TBC's overall strategy is to deliver strong, sustainable growth and profitability without compromising asset quality, robust levels of capitalization or TBC's risk management processes. This strategy is focused on the following areas:

Maintain TBC's leadership position and continue sustainable growth in each market segment

Management intends to grow together with the market and maintain its leadership position in all key segments, which are comprised of retail, corporate and MSME.

Retail banking

TBC Bank is the leader in Georgia's retail banking segment, ranking first in terms of both deposits and loans as of 31 March 2019. TBC operates a customer-centric service model and offers its clients a full range of banking products through its advanced omni-channel distribution platform with strong focus on digital channels. TBC leverages on its exceptional customer experience, world-class digital channels, most trusted brand and advanced analytical capabilities to maintain its leadership position. Management intends to continue to innovate and offer the most up-to-date digital solutions and is aiming to increase the number of customers and assets under management in the "affluent" and "high-net-worth" sub-segments respectively. TBC also plans to transform into a data-driven company and further develop its advanced data analytical capabilities in order to increase its profitability and efficiency levels, as well as increase customer experience and engagement.

Corporate and investment banking

TBC holds a leadership position in the market in terms of core corporate banking products including, loans, deposits and guarantee portfolios. TBC's corporate objective is to be the "trusted partner corporate bank" for its clients and build long-term relationships. Management believes that TBC's differentiating factors are an advisory-focused business model, exceptional customer experience, advanced trade finance and strong project finance/syndication capabilities, as well as a highly experienced and professional team. TBC currently offers its corporate clients diverse credit, trade finance and project finance products, as well as foreign currency forwards and swaps, hedging, insurance packages and escrow and other custodian services. To respond to the more sophisticated product requirements of its clients, TBC is also actively developing investment banking services through its wholly owned subsidiary TBC Capital. TBC plans to improve its business engine through implementing strategic initiatives in the following areas: further accelerating the development of capital markets and investment banking businesses in Georgia and the wider region, enhancing TBC's coverage in Georgia's regions and the mid-corporate segment and increasing penetration of corporate clients by providing them with tailor-made solutions.

MSME banking

TBC's strategy is also to maintain its strong leadership position in the MSME segment in Georgia, which Management believes has significant growth potential. TBC's ability to further improve its share of this market will be driven by its strong and proven MSME capabilities, such as its exceptional customer experience, best-in-class financial products and services, an extensive business support programme, as well as innovative solutions. TBC Bank is the only bank in the region offering fully digital on-boarding, which enables legal entities to become customers by registering online. In addition, TBC's strong digital channels enabled MSME customers to conduct most of their transactions online and as a result, the offloading ratio (calculated as number of transactions conducted in digital channels divided by total number of transactions, excluding cash transactions) stood at 92.3% as of 31 March 2019. TBC plans to continue focusing on its innovative and digital offerings to create maximum comfort to its clients.

Further leverage TBC's award-winning omni-channel platform and increase digitalisation

TBC intends to further develop its omni-channel capabilities by continuously fine-tuning its digital offerings, building customer-focused ecosystems through the Parent Company group, introducing new products, adding various functionalities (including online sales) and enhancing customer experience through simplified processes such as registration, payments, and transfers. This ongoing omni-channel development project facilitates TBC's ability to serve more customers without the need to significantly increase the number of TBC branches, allowing staff more time to focus on sales and advisory services and enhancing the customer experience, whilst reducing overall transactional costs.

In May 2018, TBC also launched Georgia's first fully-digital bank, Space, which is a cutting edge mobile application for managing daily finances. Space has no branches and offers all its products through the mobile application. Space currently offers remote account opening, consumer loans, money transfers, bill payments, debit cards and online instalments for e-commerce. TBC plans to continue to enhance Space with new products and features and actively involving customers in the development process in order to get instant feedback. TBC also intends to deploy Space in the Azeri market.

Enhance TBC's value proposition by building customer-focused digital ecosystems

TBC aims to further deepen its relationship with its customers and expand its value proposition by providing customers with a full range of financial products and services in a convenient manner, as well as creating additional services that customers need on a daily basis that are linked to TBC's core activities. TBC and the Parent Company group began the development of an e-commerce ecosystem and creation of an innovative digital trading platform, Vendoo, through the acquisition by the Parent Company group of Swoop, a well-known online discount and sales company in Georgia in August 2018. The acquisition by the Parent Company group of a 90% stake in the Georgian online real estate platform, Allproperty.ge (subsequently rebranded under the brand name Livo and the new platform www.livo.ge), in January 2019 is also expected to provide TBC's customers with a digital platform to access a wide range of products and services that are typically required when purchasing and moving into a new home. The Parent Company group plans to develop these digital ecosystems and establish additional ecosystems during 2019.

Maintain robust profitability and margins

Management is focused on maintaining solid NIMs. For this purpose, it has launched an advanced analytics program across TBC to sustain margins by conducting proper customer segmentation and pricing, as well as targeting the right product mix.

Invest in TBC's human capital and promote agile transformation

Management believes that a professional and high-quality staff is one of TBC's differentiating strengths. Management believes that TBC has attracted the best employees and aims to maintain high levels of staff motivation in order to support further business growth and development. The latest survey of staff loyalty and engagement conducted in December 2018 demonstrated that TBC's engagement index and net promoter score were 87% and 66% respectively, outperforming their benchmarks. Management recognises the importance of a flexible organisational structure in fast-changing market environments and launched a company-wide agile transformation project, which aims to create a more flexible and effective organisational structure. Management intends to oversee the implementation of this project across the Group during 2019.

Focus on continuous operational efficiency and cost management

TBC aspires to achieve the best-in-class operational cost levels in a sustainable way by leveraging on its strong digital capabilities and customer centric approach. During 2018, Management launched several initiatives in this respect, including a branch optimisation project which envisages moving from a product-centric service model to a client-centric service one. The plan is to replace existing branch positions with universal sales staff—financial advisors and service managers—for a more integrated customer relations system. TBC has also developed a plan for back office processes optimisation.

Management believes that IT capabilities represent one of the core competencies necessary for leading banks to maintain and further strengthen their positions in the market. TBC's IT strategy is to develop IT capabilities and cutting edge technologies that support TBC's robust, long-term development, including by developing automated services and operations to standardise TBC's customer services and back office processes, which is intended to increase operational efficiency and the level of straight-through processing.

Further increase leading position in customer experience

Management believes that customer experience is key to TBC's competitiveness in the market and its long-term profitability. Customer experience is considered a strength of TBC, supported by a number of internal and external market research reports that show TBC's outstanding performance not only in the Georgian banking sector but among the leading service providers in the country generally. TBC's ability to generate loyalty amongst its clients is critical to its strategy to maintain and grow its share of the Georgian banking market, and is a significant factor in TBC's ability to improve profitability. Customer loyalty generates repeat business and cross-selling opportunities for TBC's other products and services; provides TBC with a cheaper, more stable source of funding from long-term customer deposits; and reduces pressure on TBC's margins by lessening the need for TBC to lower its loan interest rates or raise deposit interest rates in order to attract or retain customers.

As a result, to further increase TBC's leading position among Georgian service providers in customer experience (see "*—Key strengths—Strong brand, superior customer experience and an award-winning*

franchise"), Management plans to intensify its effort to further strengthen this advantage and increase the gap between TBC and its competitors. In doing so, Management plans to reinforce the value of customer centricity in corporate culture, continue investing in staff competencies, further refine user experience in digital channels and introduce simpler, uniform designs and navigation and new and improved processes for managing customer experience across every channel and segment.

Principal Business Activities

Introduction

TBC's core business is focused on providing banking and ancillary financial services to retail, corporate, and MSME banking clients. TBC conducts the majority of its business operations in Georgia, but also services clients in Azerbaijan and markets deposit products to clients with links with Georgia in Israel. As at 31 March 2019, corporate, retail, and MSME loans accounted for 32.5%, 44.2% and 23.4% of TBC's total gross loans, respectively, and corporate, retail and MSME deposits accounted for 37.1%, 52.9% and 10.1% of total deposits, respectively.

TBC services its clients through a diversified omni-channel system comprising one of the largest networks of ATMs, self-service terminals and POS terminals in Georgia as well as customer centric branches, award-winning internet and mobile banking applications and a best-in-class call centre with the first voice biometric recognition system in Georgia.

Categorisation of segments

In its core banking business, TBC categorises each customer as falling within one of its retail, corporate, MSME segments. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Information*".

The following table sets out the allocation of TBC's total loans to customers and deposits as at 31 March 2019 and 31 December 2018, as well as the allocation of other selected items for the three months ended 31 March 2019 and the year ended 31 December 2018 across its retail, corporate, MSME and corporate centre segments.

	As at and for the three months ended 31 March 2019				
	Retail	Corporate	MSME	Corporate Centre	Total
	(unaudited) (GEL thousands, except percentages)				
Gross loans to customers	4,578,273	3,364,911	2,423,730	—	10,366,914
Share of TBC's total gross loans to customers	*44.2%*	*32.5%*	*23.4%*	—	*100%*
Customer accounts	4,914,928	3,444,103	935,425	—	9,294,456
Share of total customer accounts	*52.9%*	*37.1%*	*10.1%*	—	*100%*
Net interest income	94,161	49,698	43,719	7,177	194,755
Provision for loan impairment	27,359	−428	9,485	—	36,416
Fee and commission income	44,021	11,252	5,255	377	60,905
Fee and commission expense	15,727	1,590	1,667	98	19,082
Gains less losses from trading in foreign currencies	6,159	12,207	4,446	(1,224)	21,588

Note: Corporate Centre comprises the Treasury, other support and back office functions, and TBC's non-banking subsidiaries.

	As at and for the year ended 31 December 2018				
	Retail	Corporate	MSME	Corporate Centre	Total
	(unaudited) (GEL thousands, except percentages)				
Gross loans to customers	3,177,289	4,698,699	2,496,594	—	10,372,582
Share of TBC's total gross loans to customers	*45.3%*	*30.6%*	*24.1%*	—	*100%*
Customer accounts	5,103,971	3,323,257	1,017,518	—	9,444,746
Share of total customer accounts	*54.0%*	*35.2%*	*10.8%*	—	*100%*
Net interest income	609,989	264,559	255,833	152,832	1,283,213
Provision for loan impairment	118,043	9,826	15,854	—	143,723
Fee and commission income	170,082	40,663	22,498	1,383	234,626
Fee and commission expense	64,270	6,624	6,861	379	78,134
Gains less losses from trading in foreign currencies	28,811	44,629	22,002	(3,764)	91,678

Note: Corporate Centre comprises the Treasury, other support and back office functions, and TBC's non-banking subsidiaries.

The following table sets out TBC's yield analysis on average gross loans to customers for the three months ended 31 March 2019 and the years ended 31 December 2018, 2017 and 2016 across its retail, corporate and MSME segments.

	For the three months ended 31 March 2019	For the year ended 31 December		
		2018	2017	2016
	(unaudited)			
Retail	12.8%	14.2%	14.0%	15.8%
Mortgage	*7.7%*	*8.1%*	*8.4%*	*9.5%*
Consumer and pawn	*20.0%*	*20.9%*	*19.4%*	*20.9%*
Corporate	9.5%	9.5%	9.5%	10.6%
MSME	11.7%	12.1%	10.9%	11.9%

Note:

* Yields on average gross loans are calculated as a ratio of interest income to the monthly averages of the respective balances, annualised where applicable.

The following table sets out TBC's effective rates on average deposits to customers for the three months ended 31 March 2019 and the years ended 31 December 2018, 2017 and 2016 across its retail, corporate and MSME segments.

	For the three months ended 31 March 2019	For the years ended 31 December		
		2018	2017	2016
	(unaudited)			
Retail	2.8%	2.7%	3.1%	3.6%
Corporate	5.0%	5.0%	5.2%	4.1%
MSME	0.9%	1.0%	1.3%	1.2%

Note:

* Effective rates on average deposits are calculated as interest expense divided by the monthly averages of the respective balances (and annualised where applicable).

In addition to its core banking business that TBC conducts within these three segments, TBC also conducts some operations that it considers "non-core banking operations". These operations are typically conducted by TBC Bank's subsidiary companies and include, *inter alia*, leasing and brokerage services, card processing and payment collection services, banking software support services and certain marketing efforts in Israel. TBC classifies its "non-core banking operations" and its other support and back office functions under a "corporate centre and other operations" segment.

Retail banking

Overview

TBC is a leader in Georgia's retail banking segment, ranking first in terms of both deposits and loans, with market shares of 39.5% and 39.3% respectively as of 31 March 2019, according to NBG data. TBC differentiates itself by its customer experience, its digital channels, its trusted brand and advanced analytical capabilities. TBC has developed a diversified retail banking product mix, including the provision of traditional and innovative services designed to address the needs of its customers. TBC offers a full range of loan, account and deposit products through its refined omni-channel platform, with special offers and services offered to affluent clients. In addition, TBC has a strong focus on digital channels, and as a result 91.9% of its transactions in the first three months of 2019 were conducted remotely, with Internet and mobile banking applications being its customers' preferred communication channels. TBC has continued to innovate in this area and has introduced a secure method of transferring money via chat extension, Ti-Transfer, and has continued to expand its product offering via Internet and mobile banking applications. In addition, TBC provides certain retail banking services in Azerbaijan through TBC Kredit. As at 31 March 2019, TBC's retail segment accounted for 44.2% of TBC's total gross loans and 52.9% of total deposits.

TBC classifies its retail customers as "high net worth", "affluent" or "mass retail" customers. TBC's "high net worth" customers who have deposits of U.S.$ 100,000 or more are classified as "VIP clients". "Affluent" customers with deposits amounts of GEL 30,000 or more, or an outstanding loan amount of GEL 30,000 or more, or monthly income of at least GEL 3,000 are classified as "Status clients". As at 31 March 2019, TBC had over 2,400 high net worth clients and over 43,000 Status clients. Customers who have do not qualify as "high net worth" and "affluent" customers are categorised as "mass retail clients". As at 31 March 2019, TBC had approximately 2.3 million mass retail clients accounting for around 50.0% of the total value of its retail loans and 36.0% of the total value of its retail deposits.

Retail accounts and term deposits

According to NBG data, as at 31 March 2019, TBC Bank had the largest amount of deposits of individuals of any bank in Georgia, with a market share of 39.5%.

TBC offers a broad range of current and savings accounts and term deposits to its retail customers, including other deposit products such as Term Plus deposits, My Goal, Discounted Certificates of Deposit and other types of savings accounts. The offering of a wide variety of deposit products is designed to allow customers to save for a designated purpose and for different terms.

- **Term Deposits:** offer higher interest rates than current or savings accounts and lock in an interest rate for a period of time chosen by the client. The interest rate can be withdrawn at the end of the term, monthly or upon opening the deposit, with higher balances and longer terms typically earn higher rates.
- **Term Plus Term Deposits:** provide flexibility and no fixed deposit schedule and allow additional investments during the life of the term deposit. TBC will accrue interest on each amount that the client deposits.
- **"My Goal" deposits:** enable a client to accumulate a desired amount of money for a particular purpose. This deposit helps clients to collect money through monthly savings.
- **Child Deposit:** enables a client to save money for children until they reach adulthood. Compared to the other deposits, it has higher interest rates and has no fixed deposit schedule.
- **Certificate of Deposit** (a "**CD**"): type of security representing a bank deposit. It is a bank's obligation towards the holder of the CD to fulfil all the terms and conditions incorporated in the CD. The holder of the certificate is also entitled to sell the certificate to any person without pre-arrangement with TBC. The CDs have the highest interest rate among all deposit products offered by TBC.
- **"My Safe" deposit:** designed for maximum freedom and more benefits. Clients can add or withdraw funds at any time and earn a high interest rate on the non-reducible sum monthly.
- **Saving Accounts:** provide flexibility to make withdrawals on demand.

As at 31 March 2019, TBC had GEL 2,247.9 million in retail current and savings accounts (on demand) and GEL 2,667.0 million of retail term deposits and CDs (compared to GEL 2,426.6 million and

GEL 2,677.4 million, respectively, as at 31 December 2018, GEL 1,973.7 million and GEL 2,404.6 million, respectively, as at 31 December 2017 and GEL 1,618.1 million and GEL 2,129.7 million, respectively, as at 31 December 2016). As at 31 March 2019, TBC's effective interest rates for retail deposits was 2.8%. As at 31 March 2019, 80.8% of TBC's total retail deposits were denominated in currencies other than Lari. As at 31 March 2019, approximately 89.0% of all retail deposits were held in Tbilisi and 11.0% in other regions in Georgia.

Deposits of individuals are a key funding source for TBC. In order to continue to attract deposits from individuals, TBC has launched integrated marketing campaigns that emphasise TBC's brand strength, convenient branches and high service quality, which TBC believes is most important for retail depositors. TBC strives to ensure that its product offerings are fine-tuned to the client's needs. TBC's branch and other sales personnel are trained in cross-selling and upselling to appeal to potential depositors and its advanced data analytics capabilities create significant additional selling opportunities. In addition, TBC continuously introduces new deposit products to its core and prospective customers.

Retail lending

According to NBG data, as at 31 March 2019, TBC had the largest amount of loans to individuals of any bank in Georgia, with a market share of 39.3%.

TBC offers different types of loan products to its retail clients, including mortgage loans, consumer loans, credit cards, pawn loans, automobile loans, student loans, instalment loans, emergency loans and overdrafts. As at 31 March 2019, TBC had a total value of GEL 4,578.3 million loans outstanding to retail (compared to GEL 4,698.7 million, GEL 4,233.2 million and GEL 3,680.6 million as at 31 December 2018, 2017 and 2016, respectively), with an effective interest rate of 12.8%. As at 31 March 2019, 84.1% of TBC's retail loans (including consumer loans) were collateralised, with 63.5% being secured by real estate, 11.7% by inventory and equipment, 1.0% by jewellery and 2.3% by cash deposits (see "*Lending Policies and Procedures—Collateral Policies*"). As at the same date, 56.0% of TBC's total loans to retail customers were denominated in currencies other than Lari.

The following table sets out the breakdown of the value of the most significant types of TBC's gross retail loans by product, as at 31 March 2019 and 31 December 2018, 2017 and 2016.

	Percentage of the total value of TBC's gross retail loan portfolio			
	As at 31 March	As at 31 December		
Type of Product	**2019**	**2018**	**2017**	**2016**
	(unaudited)			
	(%)			
Mortgage loans	58.9%	57.7%	48.9%	49.1%
Consumer loans	40.1%	41.3%	50.3%	50.0%
Retail pawn shop loans	1.0%	1.0%	0.8%	0.9%
Total	**100%**	**100%**	**100%**	**100%**

As at 31 March 2019, 75% of TBC's retail loans originated in Tbilisi and 25% in other regions in Georgia.

Mortgage loans

Mortgage loans accounted for 58.9% of the total value of outstanding retail loans as at 31 March 2019 and represented a total of approximately 25,000 outstanding mortgage loans with an aggregate value of GEL 2,695.5 million (compared to GEL 2,709.2 million, GEL 2,069.7 million and GEL 1,808.4 million as at 31 December 2018, 2017 and 2016, respectively). TBC's mortgage loans can be offered for up to 15 years for the purchase or renovation of real estate. Such loans are secured by a pledge of the real estate being purchased or a pledge of alternative property. As at 31 March 2019, 60.7% of TBC's gross mortgage loan portfolio accrued interest at fixed rates, and 39.3% accrued interest at variable rates. The average weighted maturity period of TBC's outstanding mortgage loan portfolio as at 31 March 2019 was around 11 years.

Consumer loans

TBC offers a variety of types of consumer loans for different purposes, including automobile loans, student loans, fast consumer and emergency loans (which are unsecured loans typically issued within one day), instalment loans as well as cash cover loans (which are loans secured by customers' existing deposits).

These consumer loans are offered as fixed-term, fixed-instalment loans for a period of between one month and ten years, up to a maximum principal amount of USD 200,000, with interest rates that vary amongst loan types. As at 31 March 2019, TBC had GEL 1,835.1 million in consumer loans outstanding (compared to GEL 1,941.4 million, GEL 2,128.7 million and GEL 1,838.9 million as at 31 December 2018, 2017 and 2016, respectively).

Products and services to high net worth and affluent clients

TBC serves high net worth resident and non-resident individuals and provides them with tailor-made banking products and services, as well as advising them in relation to various investment opportunities in Georgia. TBC also has a representative office in Israel, TBC Invest, which allows TBC to attract non-resident clients from Israel more effectively. TBC serves its high-net-worth clients in special VIP service areas. Most experienced personal bankers act as consultants and wealth planners to build lifelong relationships with high-net-worth clients.

TBC Status is TBC's personal banking service specifically designed for TBC's affluent clients. The service focuses on establishing unique, long-term business relationships with each client, with banking offers tailored to customer needs and lifestyle. TBC has around 70 Status areas in 27 branches, highly professional and experience personal bankers, a dedicated call centre and specially designed internet and mobile banking applications for its Status customers. Status clients also benefit from TBC's wide range of special offers, including lifestyle offerings through TBC Status concierge, exclusive events and special discounts for the country's main cultural events.

Other retail products and services

In addition to the retail banking products and services discussed above, TBC also offers a variety of other products and services to its retail clients. TBC also offers various payment and money transfer services, which are carried out through its branch network, ATMs and remote channels such as internet and mobile banking. TBC offers only VISA and MasterCard debit and credit cards to its clients and held around 1.7 million active cards as of 31 December 2018. Based on NBG data, TBC Bank held an approximately 28% market share by number of cards (Visa and MasterCard debit and credit) by the end of 2018. TBC also offers spot currency conversion transactions to its customers in all major currencies as well as derivative products such as forwards, swaps and other financial instruments to assist clients in managing currency risk exposure.

Corporate banking

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 according to NBG data as of 31 March 2019.

TBC's corporate banking operations include lending products (including syndicated lending), accounts and term deposits, corporate cards, foreign exchange operations (including forwards and swaps), hedging, trade and project finance products (including factoring), payroll projects, escrow services, cash collection, leasing (through its majority owned subsidiary TBC Leasing) and brokerage and investment banking services (through its wholly owned subsidiary TBC Capital).

TBC began its operations by focusing on corporate clients and has historically had a strong corporate banking segment, based on its well-developed relationships with many leading Georgian corporations which, with TBC's financial and advisory support, have grown with TBC over the years. TBC provides tailored financial solutions across all key corporate business sectors, with its clients grouped into several major industry sectors. TBC has a particularly strong corporate banking presence in the energy and utilities (including oil and gas), food industry, hospitality and leisure and real estate sectors.

TBC employs more than 120 highly skilled banking professionals with deep and extensive sector knowledge. The bankers offer tailor-made solutions to the businesses and seek to optimise their financial and capital structure as well as assisting them in growing and developing their businesses.

As at 31 March 2019, TBC's corporate segment had approximately 2,700 clients and accounted for 32.5% of TBC's total gross loans and 37.1% of total deposits.

Corporate accounts and term deposits

According to NBG data, as at 31 March 2019 TBC Bank was the largest holder of deposits from legal entities in Georgia, with a market share of 41.4%.

TBC offers a range of current accounts and demand and term deposits to its corporate customers, as well as deposits with specifically tailored terms. Deposit products include Term, Term Plus, Savings, My Safe Deposits and Discounted CDs. For a description of Term Plus, and Discounted CDs, see "*—Retail banking—Retail accounts and term deposits*".

As at 31 March 2019, TBC had corporate deposits with a value of GEL 3,444.1 million (compared to GEL 3,323.3 million, GEL 2,429.4 million and GEL 1,882.2 million as at 31 December 2018, 2017 and 2016, respectively), comprising GEL 2,516.4 million in corporate current and savings accounts (on demand) and GEL 927.7 million of corporate term deposits and CDs as at 31 March 2019. As at 31 March 2019, TBC's effective interest rate for corporate deposits was 5.0%. As at the same date, 40.4% of TBC's total corporate deposits were denominated in currencies other than Lari.

Corporate on demand and savings accounts represent an important source of funding for TBC as they are a less expensive source of funding than term deposits. Corporate on demand accounts typically bear interest at lower rates than do term deposits.

Corporate lending

According to NBG data, as at 31 March 2019, TBC Bank was the largest bank in Georgia in terms of loans to legal entities, with a market share of 37.4%.

TBC offers a wide range of different types of loans and credit lines to its corporate clients, including balance sheet finance, syndicated loans, trade finance (including factoring), overdrafts, short- to medium-term loans to finance working capital, medium- to long-term project finance loans, acquisition finance loans and energy efficiency loans, as well as other customised financing packages.

TBC had a total value of GEL 3,364.9 million of corporate loans as at 31 March 2019 (compared to GEL 3,177.3 million, GEL 2,475.4 million and GEL 2,062.2 million, as at 31 December 2018, 2017 and 2016, respectively). As at the same date, 90.2% of TBC's loans to corporate clients were collateralised, out of which 65.5% were secured by real estate, 11.5% by inventory and equipment, 2.6% by cash deposits and 10.6% by other types of security (see "*Lending Policies and Procedures—Collateral Policies*"). As at 31 March 2019, TBC's average effective interest rate for loans to corporate clients was 9.5%. As at 31 March 2019, 70.0% of TBC's total loans to corporate customers were denominated in currencies other than Lari, and the largest single exposure to one client, as a percentage of total value of gross loans, stood at 1.7%. TBC's corporate loan portfolio is diversified with energy and utilities, food industry, hospitality and leisure and real estate constituting the biggest sector exposures, amounting to 63.8% of the total value of TBC's corporate loan portfolio as at 31 March 2019.

The following table sets out the breakdown of TBC's gross corporate loan portfolio by sector, as at 31 March 2019 and 31 December 2018, 2017 and 2016.

	Percentage of the total value of TBC's gross corporate loan portfolio			
	As at 31 March	As at 31 December		
Type of Product	**2019**	**2018**	**2017**	**2016**
	(unaudited)			
	(%)			
Agriculture	1.4%	1.4%	1.7%	1.9%
Automotive	3.7%	3.4%	4.3%	5.7%
Communication	6.5%	7.1%	4.2%	2.2%
Construction	5.3%	5.4%	4.4%	6.6%
Energy & Utilities	24.3%	23.9%	28.0%	25.2%
Financial Services	1.4%	1.0%	1.7%	7.4%
Food Industry	12.3%	13.5%	17.5%	10.6%
Healthcare	4.1%	4.2%	3.3%	4.7%
Hospitality & Leisure	13.6%	13.5%	9.3%	8.3%
Metals and Mining	2.8%	3.0%	2.8%	2.4%
Real Estate	13.6%	13.6%	13.3%	8.4%
Services	1.6%	1.2%	1.8%	1.2%
Trade	5.5%	4.7%	4.7%	9.1%
Transportation	1.0%	1.0%	2.1%	3.0%
Other	2.9%	3.1%	0.9%	3.3%
Total	**100%**	**100%**	**100%**	**100%**

Trade finance products

TBC currently offers a wide range of trade finance products and services to its corporate customers, including the provision of guarantees and letters of credit for both domestic and international operations, import financing, pre-export financing, documentary collections and domestic and international factoring. These products and services are offered worldwide in cooperation with TBC's network of correspondent banks and international commercial banks as well as the Global Trade Finance Programme with IFC, the ADB Trade Programme and the Trade Facilitation Programme with EBRD.

As a result of TBC's active participation in these programmes, TBC received a number of awards from international banks, recognising TBC's strong presence in the trade finance business. ADB named TBC Bank as "Leading Partner Bank in Georgia 2018", EBRD named TBC Bank as the "Most Active Issuing Bank in Georgia" in 2017 and 2018 and *Global Finance* named TBC Bank as "Best Trade Finance Provider in Georgia in 2019". Management believes that TBC has one of the fastest growing trade finance portfolios in Georgia. As at 31 March 2019, TBC's trade finance portfolio was GEL 1,300.6 million and included local and international guarantees and letters of credit.

Brokerage and Advisory and research services

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 GSE and plays an active role in the development of its infrastructure and the integration of domestic capital market into international markets.

In 2018, TBC Capital acted as the sole lead arranger for Silknet, Nikora Trade, TBC Leasing, Lisi Lake Development, Georgia Beer Company, BSTDB and FMO bonds via public and private placements. The bonds issued and listed by TBC Capital during the year amounted to GEL 305 million, which represented 55% of total bonds issued and listed on the GSE.

In 2018, TBC Capital published two comprehensive research reports (Fixed Income Securities and Georgian FMCG Sector Analysis), providing comprehensive analyses for investors, analysts and other interested parties who continually explore various investment opportunities in Georgia.

Payroll services

TBC offers payroll services to its corporate clients, enabling them to reduce the cost of paying salaries to their employees by transferring salaries directly to their employees' bank accounts with TBC Bank. TBC's payroll clients also benefit from wide range of retail products which are offered to the corporate customer employees at a special terms and conditions. As at 31 March 2019, TBC had 1,200 active corporate payroll clients with approximately 155,500 accounts.

Cash collection and shipment

TBC offers to its corporate customers cash collection services and delivery of cash in banknotes of particular denominations or coins. Cash collection services include cash collection and transportation services from collection points of TBC's customers engaged in retail trade to TBC's vaults.

Other corporate products and services

TBC also offers other products and services to its corporate clients similar to those services offered retail clients, including foreign currency operations, money transfers and direct debit.

MSME banking

Overview

TBC is the leading partner bank for MSME clients in Georgia and Management considers the MSME business as core to the country's economic development with a high level of growth potential. TBC focuses on providing financial solutions to MSME customers through its diversified product range and TBC Bank is the only bank in the region offering fully digital on-boarding for its MSME customers. In 2018, approximately 63.0% of all newly registered legal entities (limited liability companies, joint stock companies and cooperatives) in Georgia became customers of TBC Bank, according to data published by Geostat and TBC's estimates. TBC also offers loan products to MSME clients in Azerbaijan through its Azeri subsidiary, TBC Kredit.

As at 31 March 2019, TBC's MSME business had approximately 135,000 clients and accounted for 23.4% of TBC's total gross loans and 10.1% of total deposits.

MSME accounts and term deposits

TBC offers different types of current and savings accounts and term deposits to its MSME clients. As at 31 March 2019, TBC had MSME deposits with a total value of GEL 935.4 million (compared to GEL 1,017.5 million, GEL 1,027.7 million and GEL 831.6 million as at 31 December 2018, 2017 and 2016, respectively), comprising GEL 887.9 million in MSME current and savings accounts (on demand) and GEL 47.6 million of MSME term deposits and CDs. As at 31 March 2019, TBC's effective interest rates for MSME deposits stood at 0.9%. As at the same date, 46.1% of TBC's total MSME deposits were denominated in currencies other than Lari. As at 31 March 2019, 92.3% of TBC's total MSME non-cash transactions were conducted through remote channels. As at 31 March 2019, approximately 83.0% of the total value of MSME deposits was held in Tbilisi, with the remainder in other regions in Georgia.

MSME lending

TBC offers a wide variety of short-to-medium term loan products that are tailored specifically to MSME businesses in order to meet the expectations of customers in this segment. The loans are granted for various purposes, such as financing working capital seasonal needs, sales growth, acquisitions, construction and expansion of production, as well as for other purposes. TBC also supports early-stage businesses through its programme "Startaperi", which offers both financial and non-financial support to companies.

As at 31 March 2019, TBC's MSME loans had a total value of GEL 2,423.8 million (compared to GEL 2,496.6 million, GEL 1,844.7 million and GEL 1,615.9 million as at 31 December 2018, 2017 and 2016, respectively). As at the same date, 95.7% of TBC's loans to MSME clients were collateralised, out of which 76.3% was secured by real estate, 9.4% by jewellery and the remaining 10.0% by other types of security (see "*Lending Policies and Procedures—Collateral Policies*"). As at 31 March 2019, TBC's effective interest rate for loans to MSME clients was 11.7%. As at 31 March 2019, 52.2% of TBC's total loans to MSME customers were denominated in currencies other than Lari.

TBC's MSME business has a strong presence in various industries, including the hospitality and leisure, real estate, trade, services, food and healthcare sectors. TBC has been the leading partner bank for the government programme, "Produce in Georgia", which aims to support these industries. Under this programme in 2018, TBC disbursed 64 loans for a total amount of GEL 42 million.

The following table sets out the breakdown of TBC's gross MSME loan portfolio by sector, as at 31 March 2019 and 31 December 2018, 2017 and 2016.

	Percentage of the total value of TBC's gross MSME loan portfolio			
	As at 31 March	As at 31 December		
Sector	**2019**	**2018**	**2017**	**2016**
	(unaudited)			
		(%)		
Agriculture	15.7%	15.0%	12.3%	11.1%
Automotive	2.9%	1.9%	2.9%	1.7%
Communication	0.1%	0.2%	0.6%	0.1%
Construction	8.1%	7.6%	6.8%	4.7%
Energy & Utilities	0.4%	0.6%	1.4%	1.3%
Financial Services	0.3%	1.6%	2.4%	2.2%
Food Industry	7.1%	5.6%	4.9%	5.2%
Healthcare	4.1%	3.5%	5.0%	5.3%
Hospitality & Leisure	14.8%	13.2%	11.9%	9.3%
Individual	1.2%	1.1%	0.0%	0.0%
Metals and Mining	0.2%	0.2%	0.8%	0.8%
Pawn Shops	9.4%	9.2%	13.3%	16.8%
Real Estate	5.3%	5.2%	6.8%	5.1%
Services	5.6%	5.6%	3.4%	5.7%
Trade	13.3%	11.9%	15.0%	17.6%
Transportation	3.1%	1.9%	2.4%	1.7%
Other	8.4%	15.7%	10.1%	11.4%
Total	**100%**	**100%**	**100%**	**100%**

As at 31 March 2019, approximately 45.0% of the total value of TBC's MSME gross loans was originated in Tbilisi, with the remainder in other regions in Georgia.

Other MSME products and services

TBC Bank is 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 its business education programme, TBC conducts trainings, runs conferences and organises 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 ADB. During 2018 up to 7,500 business individuals participated in this programme. In order to further enhance its business support programme, in 2018, TBC 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. The website supports developers in raising awareness of their products, and helps businesses to automate their processes and increase their efficiency.

TBC also offers a variety of other products and services to its MSME clients similar to those services offered to corporate clients, including foreign currency operations, wire transfers, business cards, payroll services, trade finance, cash collection, money transfers, direct debit and integration services.

Other operations

Although the vast majority of its operations are conducted in Georgia (representing 99.8% of TBC's assets as at 31 March 2019), TBC also operates in Azerbaijan and Israel through its subsidiaries, TBC Kredit and TBC Invest, respectively.

TBC Kredit

Acquired in 2008, TBC Kredit is a non-banking credit organisation focused on SME and retail customers, with extensive experience in dealing with various types of loans, including SME, consumer and mortgage loans. In August 2018 TBC Bank became a 100% shareholder in TBC Kredit. TBC Kredit's total loan portfolio stood at GEL 25.7 million at 31 March 2019. SME lending accounted for 41.7% of the total, while consumer and mortgage loans accounted for 37.0% and 21.3%, respectively.

In January 2019, TBC Bank signed a shareholder agreement with Azerbaijan's Nikoil Bank shareholders aimed at developing the business in the country and consolidating the business of TBC Bank's Azeri 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 Nikoil Bank with a call option (exercisable by either TBC Bank or the Parent Company, but expected to be exercised by the Parent Company) to bring its (or the Parent Company's) shareholding in Nikoil Bank to 50% plus one share within four years. The exercise of this call option will be based on a fixed price formula calculated by reference to the merged entity's book value. In addition, the shareholders of Nikoil Bank hold a put option, exercisable for three years after the second anniversary of the exercise of the call option, requiring TBC to acquire their Nikoil Bank shares. 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. As of 31 March 2019, Nikoil Bank had total assets of US$ 243.7 million and total equity of US$ 35.6 million.

Ancillary financial operations

In addition to its core banking business that TBC conducts within its retail, corporate and MSME segments through TBC Bank and TBC Kredit, TBC also conducts ancillary financial operations. These operations are typically conducted by TBC Bank's subsidiary companies and include, *inter alia*, leasing services, card processing and payment collection services, banking software support services and certain marketing efforts in Israel. These non-core banking operations accounted for 2.2% of TBC's assets in the three months ended 31 March 2019 (compared to 2.1%, 1.8% and 1.4% in the years ended 31 December 2018, 2017 and 2016, respectively).

TBC Invest is a wholly-owned subsidiary established by TBC Bank in 2011 to act as an intermediary, providing Israeli clients with information and access to the Georgian banking system. It offers information to individuals (primarily Georgian emigrants) and companies (mostly Israeli businessmen connected with Georgia and family offices) in Israel regarding TBC's products and services, fees and interest rates.

In addition, TBC offers leasing services in Georgia through TBC Leasing, its majority-owned subsidiary. TBC Leasing was established in 2003 and as at 31 December 2018 had a 72.3% market share of the leasing market (based on Management estimates). TBC Leasing offers finance leasing, leaseback, residual leases, and service leases, under which TBC Leasing purchases a specified asset (such as machinery or equipment) and leases it to the customer following which ownership of the asset is either turned over to the customer or held by TBC Leasing. Leasing arrangements are primarily entered into with customers in the construction, medical, agriculture, transportation and service sectors.

TBC Bank's subsidiaries JSC United Financial Corporation and TBC Pay LLC are involved in processing payment cards and supplying payments collection services to providers of self-service machines and POS, WAP and Windows terminals. JSC Real Estate Management Fund (over which TBC Bank exercises control, even though it is not a subsidiary of TBC Bank) manages property repossessed by TBC for future sale, Banking Systems Service Company (BSSC) LLC provides technical services and software support to the electronic banking systems (such as POS and cash machines) and BG LLC (over which TBC Bank exercises control, even though it is not a subsidiary of TBC Bank) provides asset management service to TBC.

TBC also offers insurance services to its customers through TBC Insurance, which is a wholly owned subsidiary of TBC Bank Group PLC, the UK incorporated parent company of TBC Bank. TBC Insurance is TBC's main bancassurance partner. It is the second largest provider in the Georgian P&C and life insurance market and the largest in the retail segment, holding 19.1% and 31.2% market shares, respectively, as of 31 December 2018, according to data provided by Legal Entity of Public Law Insurance State Supervision Service of Georgia and TBC's estimates.

Parent Company group operations

TBC's parent company, TBC Bank Group PLC, is also engaged in strategic activities through its other subsidiaries that are intended to enhance and support TBC's business. These include TBC Insurance, which is TBC's main bancassurance partner, and the creation of customer-focused digital ecosystems aiming to provide additional services that TBC's customers need on a daily basis and that are linked to TBC's core activities. TBC and the Parent Company group began the development of an e-commerce ecosystem and creation of an innovative digital trading platform, Vendoo, through the acquisition by the Parent Company group of Swoop, a well-known online discount and sales company in Georgia in August 2018, and the acquisition by the Parent Company group of a 90% stake in the Georgian online real estate platform, Allproperty.ge (subsequently rebranded under the brand name Livo and the new platform www.livo.ge), in January 2019 is expected to provide TBC's customers with a digital platform to access a wide range of products and services that are typically required when purchasing and moving into a new home. The Parent Company plans to develop these digital ecosystems and establish additional ecosystems during 2019. In addition, the Parent Company group is also targeting strategic international expansion in selected new markets, including Uzbekistan.

These activities are not conducted by TBC, but by other companies in the Parent Company group, but they are beneficial for TBC's business. As of 31 March 2019, TBC has not directly provided any capital for these operations, although the Parent Company has used dividend funds received from TBC Bank, as well as amounts received from TBC Bank in consideration for Parent Company shares distributed to TBC Bank's employees as bonuses, to support these activities and expects to continue to do so going forward.

Distribution network

TBC has developed a leading sophisticated omni-channel distribution platform that allows it to service its customers through a combination of a brick-and-mortar branch network and a variety of advanced remote channels. These remote channels include technologically state-of-the-art options (such as internet and mobile phone banking) as well as more traditional options (such as ATMs, POS terminals, self-service terminals and a call centre).

Branch network

As at 31 March 2019, TBC's branch network comprised 148 branches, consisting of service centres, full branches and micro outlets. TBC has 73 branches located in Tbilisi and 73 in other parts of Georgia, as well as 2 branches in Azerbaijan. Between the end of 2016 and 31 March 2019, TBC closed 19 branches in connection with a branch optimization project and an increased focus on remote channels. TBC's branches are highly standardised, with the aim of delivering a superior customer experience in line with, and enhancing, TBC's brand.

The customer centric designed branches leverage TBC's strength in omni-channel banking and feature state-of-the-art e-banking tools and technology. The design is intended to minimise physical and psychological barriers between TBC and its customers, thus creating a unique, customer-centric layout. The new concept was developed specifically for TBC as a result of comprehensive tailored studies of the TBC's existing branches and its clients' needs and aspirations.

Remote access channels

TBC aims to provide the best omni-channel experience in Georgia, achieved through a programme of continuous improvements intended to help TBC to consistently outperform competitors with best-in-class digital banking touch points including internet banking and mobile banking, self-service terminals, ATMs, POS terminals and social networks. TBC's goal is to deploy digital banking platform that excels both in functionality and design and incorporates nearly all retail banking sales and services in one space. As a result of TBC's strong focus on digital channels 91.9% of its transactions are conducted remotely, with

Internet and mobile banking applications being customers' most preferred communication channels as of 31 March 2019.

In May 2018 TBC launched Georgia's first fully digital bank, Space. A market-leading 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. Space targets a young, digitally savvy generation which is looking for an alternative to traditional banking services. Space does not have any branches and all products and services are distributed online. Everything can be done remotely without needing to go into a bank, and if customers have questions consultations are provided online either via Facebook messenger, an in-app chat, or by telephone. Between its launch in May 2018 and 31 March 2019, Space attracted approximately 115,000 clients and 292,400 downloads, and had an outstanding loan portfolio of approximately GEL 16.8 million as of 31 March 2019 (as of 30 June 2018: approximately 48,000 clients, 99,600 downloads, GEL 1.1 million loan portfolio; as of 30 September 2018: approximately 72,000 clients, 186,000 downloads, GEL 5.8 million loan portfolio; as of 31 December 2018: approximately 94,000 clients, 258,800 downloads, GEL 14.7 million loan portfolio). Space currently offers remote account opening, consumer loans, money transfers, bill payments, debit cards and online instalments for e-commerce. TBC aims to continue enhancing Space with new products and features.

TBC's growth in the number of Space application downloads, the number of registered Space customers, and the amount of Space's outstanding loan portfolio is set out in the table below:

	As at			
	31 March 2019	**31 December 2018**	**30 September 2018**	**30 June 2018**
Number of application downloads	292,423	258,846	186,044	99,646
Number of registered customers	114,675	93,994	72,447	47,657
Loans (in GEL thousands)	16,843	14,693	5,814	1,112

TBC also launched the first Georgian-speaking chatbot, which is increasingly popular among its clients. Since March 2017, Ti-bot has attracted around 250,000 customers. In addition to the simple transactions that Ti-bot can perform, in 2018 TBC 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.

TBC constantly upgrades its award-winning internet and mobile banking applications. During 2018, several new products were added to the internet and mobile banking applications for retail customers 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. As of 31 March 2019, TBC's mobile banking penetration was 36.7%, and its combined mobile and internet banking penetration totalled 41.9%. TBC also upgraded its internet banking for legal entities with new features and intuitive design to make it much easier to use.

In 2018, TBC's Internet bank has been named the world's "Best Integrated Consumer Banking Site" by *Global Finance* in addition to multiple digital country and regional (CEE) awards. The quality of the TBC's digital experience has also been reinforced by highly positive user feedback, such as the high ratings that TBC's iPhone & Android mobile banking applications maintain on App Store and Google Play.

As at 31 March 2019, TBC had approximately 510,614 active internet or mobile banking customers and 446,879 "active" mobile phone banking users (who utilised TBC's mobile banking services during the three previous months).

In addition, as at 31 March 2019, TBC operated a network of 510 ATMs (or, including ATMs operated by partner banks in Georgia, approximately 1,400 ATMs), 17,857 POS terminals, 3,320 self-service terminals, located within TBC's branches, at shopping centres, supermarkets and other locations throughout Georgia. Self-service terminals allow clients to perform various transactions remotely: clients can pay loans, utility bills, car parking fees and parking fines, mobile and internet bills through these terminals. TBC has recently introduced payments by cards through these terminals. TBC also offers its clients a 24/7 customer call centre with first voice biometric recognition system. Around 95.0% of all customer calls are answered within 15 seconds.

Competition

As at 31 March 2019, there were 15 commercial banks registered in Georgia, all of which have general banking licences issued by the NBG enabling them to perform banking transactions. The banking system is entirely privately owned and highly concentrated, with the two largest banks, TBC Bank and Bank of Georgia, controlling more than 70% of both loans and deposits, substantially higher than those of the third largest bank. According to information published by the NBG, as at 31 March 2019, the aggregate assets of all banks in Georgia were approximately GEL 39.4 billion, with the five largest banks accounting for approximately 85.1% of such assets.

The following tables set out information on the loans and deposits of the five largest banks in Georgia by total assets as at 31 March 2019. This information is derived from NBG data, which was compiled from standalone financial information filed with the NBG by Georgian banks.

	As at 31 March 2019					
	Loans to individuals		Loans to legal entities		Total loans	
	(GEL thousands)	(% of total market)	(GEL thousands)	(% of total market)	(GEL thousands)	(% of total market)
TBC Bank	5,644,277	39.3	4,679,325	37.4	10,323,602	38.4
Bank of Georgia	5,476,462	38.2	3,591,800	28.7	9,068,262	33.8
Liberty Bank	852,241	5.9	311,382	2.5	1,163,623	4.3
VTB Bank Georgia	507,088	3.5	602,993	4.8	1,110,081	4.1
Procredit Bank	153,608	1.1	866,751	6.9	1,020,359	3.8
Total	**12,633,676**	**88.0**	**10,052,251**	**80.3**	**22,685,927**	**84.4**

	As at 31 March 2019					
	Deposits of individuals		Deposits of legal entities		Total deposits	
	(GEL thousands)	(% of total market)	(GEL thousands)	(% of total market)	(GEL thousands)	(% of total market)
TBC Bank	4,917,136	39.5	4,409,011	41.4	9,326,147	40.4
Bank of Georgia	4,759,465	38.2	3,234,367	30.3	7,993,832	34.6
Liberty Bank	1,000,589	8.0	494,865	4.6	1,495,454	6.5
VTB Bank Georgia	455,162	3.7	629,829	5.9	1,084,991	4.7
Procredit Bank	378,389	3.0	306,994	2.9	685,383	3.0
Total	**11,510,741**	**92.4**	**9,075,066**	**85.1**	**20,585,807**	**89.2**

Source: NBG

As at 31 March 2019, TBC Bank was the largest bank in Georgia based on all key metrics including, total loans, total deposits, deposits of individuals, deposits of legal entities, loans to individuals, loans to legal entities and total assets. According to NBG data (based on standalone financial information filed with the NBG by Georgian banks), TBC's market shares of loans to individuals and loans to legal entities were 39.3% and 37.4%, respectively, as at 31 March 2019, compared to 40.0% and 37.4%, respectively, as at 31 December 2018, 40.2% and 36.0% respectively, as at 31 December 2017 and 44.2% and 33.5% respectively, as at 31 December 2016. TBC Bank's market shares of deposits of individuals and deposits of legal entities were 39.5% and 41.4%, respectively, as at 31 March 2019, compared to 41.2% and 41.2%, respectively, as at 31 December 2018, 41.3% and 37.9%, respectively, as at 31 December 2017 and 40.8% and 34.2%, respectively, as at 31 December 2016.

TBC considers its principal competitors to be domestic banks such as Bank of Georgia and Liberty Bank, and subsidiaries of foreign banks, such as ProCredit Bank and VTB. The number of major competitors in the Georgian banking market has remained relatively stable recently, with TBC and Bank of Georgia maintaining their positions as the two largest banks by most measures. See "*Risk Factors—Risks Relating to TBC's Business—TBC faces competition*" and "*Banking Sector and Banking Regulation in Georgia—Commercial Banks in Georgia*".

Properties

TBC owns 2,623 square metres of land, on which its head office, at 7 Marjanishvili Street in Tbilisi consisting of 6,729 square metres of office space, is located. The land and the building had a combined

carrying value of GEL 33.3 million as at 31 March 2019. This building comprises a TBC branch, a significant part of TBC Bank's back office departments, the headquarters of TBC Capital and TBC Gallery, which is frequently used for art exhibitions.

TBC also owns several plots of land and buildings where its back office functions are located:

- a 2,367 square metre office building at 7 Politkovskaia Street in Tbilisi (which had a carrying value of GEL 5.3 million as at 31 March 2019);
- 43,019 square metres of land, on which is located a 32,549 square metre office building at 2 University Street in Tbilisi (which had a carrying value of GEL 60.2 million as at 31 March 2019), which TBC may seek to sell in the near to mid-term; and
- 2,290 square metres of land, on which is located a 7,391 square metre office building at 2 Abashidze Street in Tbilisi (which had a carrying value of GEL 34.2 million as at 31 March 2019).

In 2017, TBC Bank entered into a real estate acquisition agreement with JSC Lisi Lake Development, a company in which Mamuka Khazaradze and Badri Japaridze are major shareholders, and its wholly owned subsidiary. In this transaction, TBC Bank assigned to these companies its right of claim under a secured non-performing loan in exchange for title to 162,001 square metre parcels of land near Lisi Lake, in Tbilisi, on which TBC Bank plans to open its new head office. The fair value of the consideration determined by an independent evaluator was USD 13.7 million.

TBC will open its new head office, "Tbilisi Business Centre" and the nearby Mukhran Machavariani Park, in the next three years. The complex will combine the TBC head office with a cultural hub and an innovation lab. It is also expected to serve as a catalyst for the development of the new area of the city with new housing, galleries, restaurants, a childcare centre, and a co-working space all envisaged (the carrying value of the plot of land was GEL 48.5 million as of 31 March 2019). The total estimated cost of the project is GEL 185 million, to be incurred in stages by 2021.

TBC also owns an office for its fully digital bank, Space, located at 47 Chavchavadze Avenue in Tbilisi (which had a carrying value of GEL 2.2 million as at 31 March 2019) and several other buildings in Tbilisi for its support activities and warehouse.

TBC also rents the head office of TBC Kredit located at 33, 28 May Street, Baku, Azerbaijan.

As of 31 March 2019, TBC's branch network consists of 146 branches of TBC Bank and 2 branches of TBC Kredit in Azerbaijan, out of which 54 are owned, 89 are leased and 5 partially leased and partially owned.

As at 31 March 2019, the total net book value of the real estate and land owned by TBC was GEL 200.6 million, not including properties comprising repossessed collateral acquired by TBC in settlement of overdue loans, other than those classified as investment property.

Information systems

TBC continuously invests in technology and upgrades its operations in order to be able to provide its customers the most innovative solutions on the market and to transform its banking business into more digital, customer focused and agile organisation whilst generating high returns and outpacing market in terms of loan book and deposit growth.

Customer service systems

TBC leverages on its advance data analytics capabilities in order to further enhance its customer experience, retain and gain clients more efficiently, and increase cross-selling opportunities, profitability and efficiency levels. TBC is able to utilise its vast database to develop propensity scores, or probability of purchase, for each customer. This helps TBC to effectively offer products customers are more likely to purchase. TBC also calculates churn scores, which enable TBC to identify reasons for any decisions to leave, giving TBC the opportunity to win clients back. In 2018, TBC implemented a thorough market study across the globe in order to identify best practices for analytics use cases and assess their relevance for TBC. Based on this analysis, TBC identified relevant use cases for each division and developed the roadmap for the next three 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. TBC plans to launch more projects during 2019. In parallel, TBC is building an in-house analytical team by recruiting and training the best talents and developing big data infrastructure.

In May 2018, TBC launched Space, the first digital only bank in Georgia. Space is a unique solution, which challenges traditional approaches to banking by creating an end-to-end digital experience through intuitive interfaces and simple, real-time processes and features. Space was developed over the course of 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. The application is a fully cloud solution which is easy to integrate with traditional legacy system.

In 2018, TBC added several new products to the internet and mobile banking applications for retail customers, 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. TBC also upgraded its internet banking for legal entities with new features and an intuitive design to make it easier to use.

TBC's wholly owned subsidiary, TBC Pay, operates a wide network of self-service terminals across Georgia, which allow individuals to perform payments for various daily services instantly on a 24-hour basis using cash or a debit or credit card. TBC Pay also operates an online platform (www.tbcpay.ge), which has the same functionality as the self-service terminals. TBC continues to enhance its online payment platform and in 2018, 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, TBC plans to introduce an e-wallet, which will be integrated in self-service terminals and online platform and give an opportunity to TBC's clients to conduct electronic transactions without using their credit cards. Management expects TBC Pay mobile application to follow shortly after, introducing the easiest instant money transfer service.

In 2017, TBC launched Ti-Bot, the first Georgian-speaking chatbot available via Facebook messenger. Ti-Bot allows customers to perform simple banking transactions, as well as provides useful information about TBC's products, entertainment events and weather forecasts. In addition to the simple transactions that Ti-Bot can perform, in 2018 TBC 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.

TBC is developing an e-commerce market place and building an innovative digital trading platform, Vendoo, through the acquisition by the Parent Company group of Swoop, a well-known online discount and sales company in Georgia. TBC is also developing a digital ecosystem for real estate in Georgia through the acquisition by the Parent Company group of a 90% stake in a real estate platform, Allproperty.ge, which was subsequently rebranded under the brand name Livo and the new platform www.livo.ge. The ecosystem will offer customers a wide range of products and services they typically require when purchasing and moving into a new home.

TBC also continues to develop its business support programme and in 2018 TBC launched an innovative B2B platform for businesses, 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.

Other operational systems

TBC's banking operations in Georgia use a local Georgian core banking system (used by 14 other banks in Georgia), heavily complemented by in-house developed solutions. TBC plans to continue its operation on this existing core banking solution in the near future. In line with its digital transformation, TBC engaged with a vendor in connection with a big scale re-engineering project. The objective is to componentize the system into service oriented architecture, adopting micro-services capabilities where relevant and thus making the overall architecture more flexible, robust and scalable. Within the scope of the re-engineering is also the change of the relationship model with the vendor, moving from traditional vendor-customer to a partnership relationship. That is achieved by sharing source code of the re-engineered solution with TBC so that both entities can co-develop the platform via an open source software projects style practice.

One of the pillars of digital transformation is an agile transformation of TBC, which entails the design of autonomous teams focused on specific missions. In order to empower those teams with technologies and

tools, high focus on DevOps practices development is being carried out. Additionally, internalising many capabilities that would have been outsourced before is highly appreciated and encouraged. The internal teams are strengthened by out-staffing local vendors as well as a recently established development competence centre in Ukraine. The latter is used to tap into a wider talent pool of IT professionals outside Georgia.

TBC also utilises multiple technologies in advanced analytics. The technologies vary from traditional OLAP to ultramodern in-memory databases and BigData, allowing users to quickly analyse a large amount of data and trend information to make informed decisions. Those capabilities are shared across TBC group companies to benefit from economies of scope and scale.

TBC also utilises various cloud technologies for new ventures, subsidiaries and affiliates to enable flexibility of replication of newly built capabilities into different markets.

Information security and data management

TBC 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.

TBC 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. Intrusion prevention and Distributed Denial of Service protection systems are in place to protect TBC 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. Whenever preventive controls are not applicable, comprehensive business continuity and incident response plans ensure TBC's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption. 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, the Information Security Committee is actively involved in improving information security and business continuity management processes to minimise information security risks. Periodically, TBC hires external audit companies to examine its 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 TBC Bank's systems ensure reliable protection against cyber threats.

Employees and Training

The following table sets out the number of TBC Bank's employees, as at the dates indicated:

	As at 31 March	As at 31 December		
	2019	2018	2017	2016
Head office	2,346	2,461	2,189	1,739
Branches (including call centre)	3,887	3,990	4,225	3,180
Total	**6,233**	**6,451**	**6,414**	**4,919**
Other	618	617	545	1,373
Total	**6,851**	**7,068**	**6,959**	**6,292**

As at 31 March 2019, TBC Bank had 6,851 employees, of whom approximately 97.0% worked full time. As at the same date, 6,774 of its employees (or 98.9% of the total) were based in Georgia.

TBC Bank provides various types of non-wage compensation to employees including bonuses, medical insurance, paid annual leave and sick leave 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. Since 2013, TBC Bank has 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.

TBC's employment strategy is to attract and retain skilled and well-trained employees at all levels. Its human resource management system is supported by a tailored IT system to manage personnel through recruitment, career planning, training, and performance evaluations.

Since 2011, TBC has run TBC Academy, an in-house educational platform, which provides training and workshops in different fields and allows employees to learn from TBC's top and middle management. Classes comprise technical subjects such as financial institutions, capital markets, ethics and financial fraud management, as well as soft skills 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.

TBC also provides 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 its employees, since 2013 TBC has operated a distance learning system, which gives its employees an opportunity to study at a time suitable for them.

In addition to in-house training opportunities, TBC provides support to employees for external training, financing and internationally recognised qualifications, such as the Chartered Financial Analyst ("**CFA**") and Association of Chartered Certified Accountants, as per the relevant department's requirements. TBC also operates a scholarship fund, created in 2012, that has financed more than 80 TBC middle managers in acquiring their MBAs.

TBC's performance appraisal system is closely linked with TBC's overall objectives and is based on three core principles: clarity, fairness and integrity. TBC makes sure that its employees have a clear understanding of their contribution to TBC'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 TBC's performance appraisal system.

TBC uses different assessment systems for front and back office staff and it varies depending on the positions held. TBC assesses back office staff with the management-by-objectives 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. TBC has a uniform scoring system for all employees within the MBO, which ensures fairness throughout the organisation. For middle managers, TBC also runs a 360-degree feedback process that provides each employee with the opportunity to receive performance feedback from his/her supervisor, peers and subordinates. The 360-degree feedback allows 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, TBC uses a target-based performance assessment system, whereby their performance is linked to specific key performance indicators ("**KPIs**"), including quantitative and qualitative components. Within the target based system, employees are assessed monthly, quarterly or annually depending on their positions.

Regular communication with employees is an integral part of the TBC's corporate culture. TBC ensures its team is kept apprised of information concerning TBC's activities through executive presentations, TBC magazine, intranet content and different corporate events organised by the human resources department. The human resources department also regularly conducts surveys to assess the attitude of TBC's staff members and take actions accordingly.

TBC aspires to run a business that promotes high ethical standards, values and respect for human rights, and encourages its employees to act with integrity and responsibility towards each other as well as towards customers, business partners, other stakeholders and the community at large. For this purpose, TBC has implemented a set of internal policies and procedures and it closely monitors their execution:

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

These policies apply to all employees and can be found on www.tbcbankgroup.com.

Intellectual Property

TBC has registered several trademarks and logos, including those belonging to TBC Bank and TBC Kredit. In addition, TBC has registered multiple domain names in Georgia and elsewhere. A number of

software licenses granted to TBC also comprise a part of TBC's intellectual property. Other than trademarks, logos and copyrights, Management does not consider any of its intellectual property assets to be material to its business.

Material Contracts

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the Group: (i) within the two years immediately preceding the date of this document and which is, or may be, material; or (ii) which contains any provision under which any member of the Group has any obligation or entitlement which is material to TBC as at the date hereof.

Material financing facilities

For details of the material financing facilities that TBC Bank has entered into and that are outstanding as of the date hereof, see "*Selected Statistical and Other Information—Funding Sources—Other sources of funding—Other borrowed funds*".

Agreements relating to the Notes and the offering

On 1 July 2019, TBC Bank and the Joint Lead Managers entered into the Subscription Agreement providing for, inter alia, the subscription of the Global Offer. See "*Subscription and Sale*".

On 3 July 2019, TBC Bank and the Trustee will enter into the Trust Deed constituting the Notes. See "*Terms and Conditions of the Notes*".

On 3 July 2019, TBC Bank and the paying agents and other parties named therein will enter into the Agency Agreement. See "*Terms and Conditions of the Notes*".

Legal Proceedings

From time to time and in the normal course of business, TBC is subject to legal actions and complaints, including those described below. However, other than as described below, during the 12 months preceding the date of this Prospectus there have been no governmental, legal or arbitration proceedings (including any proceedings, which are pending or threatened of which TBC is aware) that may have or have had in the recent past a significant effect on TBC's financial position or profitability.

In September 2018, TBC was notified that its principal regulator, the NBG, had launched an inspection into three historic loan transactions with a total aggregate value of approximately US$ 17 million involving TBC that took place in 2007 and 2008. On 21 February 2019, TBC and the NBG released a joint statement announcing the conclusion of the NBG inspection, and the NBG has announced that it considers matters relating to the inspection to be closed. In addition, on 8 January 2019, the Georgian Office of Public Prosecution announced that it had also launched a criminal investigation into the same loan transactions involving TBC that took place in 2007 and 2008 to see if these involved any violation of the criminal code. As of the date of this Prospectus, the Georgian Office of Public Prosecution has not announced the conclusion of its investigation. See "*Risk Factors—Risks Relating to TBC—TBC has been subject to scrutiny by the NBG and remains subject to an ongoing investigation by the Georgian Office of Public Prosecution relating to certain historic transactions*".

BANKING SECTOR AND BANKING REGULATION IN GEORGIA

Introduction

The Georgian banking sector consists of banks, non-bank deposit-taking institutions and micro-finance organisations. While commercial banks provide a wide range of banking services, the other non-bank institutions provide only limited financial services, such as non-bank deposit-taking institutions accepting deposits from and issuing loans to their members only, or micro-finance organisations issuing micro-finance loans. Generally, all credit institutions in Georgia are required to be licensed or registered by the NBG. In addition, any person or a group of interrelated persons engaged in lending activities would be required to undergo registration with the NBG if the number of their retail borrowers (including individual entrepreneurs) exceeds 20.

The principal laws regulating the Georgian banking sector are the Organic Law on the National Bank of Georgia (the "**NBG Law**"), which was adopted in September 2009 (which replaced the previous Organic Law on the National Bank of Georgia adopted in June 1995) and the Law of Georgia on Activities of Commercial Banks (the "**Banking Law**"), which was adopted in 1996. The NBG Law sets out the principal responsibilities of the NBG. The Banking Law (i) sets out the list of permitted and prohibited activities for banks, and (ii) establishes the framework for the registration and licensing of banks in Georgia and the regulation of banking activity supervision.

Commercial Banks in Georgia

According to NBG data, as at 31 March 2019, there were 15 commercial banks and foreign bank branches operating in Georgia, 14 of which had foreign capital participation. As at 31 December 2018, the total assets of the Georgian banking sector was GEL 39.7 billion, as compared to GEL 34.6 billion as at 31 December 2017. The five largest banks accounted for approximately 85.4% of the total assets of the Georgian banking sector as at 31 December 2018.

The following table sets forth the aggregate balance sheet of the Georgian banking sector as at the dates indicated:

	As at 31 December		
	2018	2017	2016
	(GEL millions)		
Cash	1,428.6	1,217.7	1,252.0
Balances on Correspondent Accounts	6,080.5	6,353.8	5,836.9
Securities for Dealing Operations	0	0	2.1
Investment Securities[1]	4,161.7	3,325.0	2,660.7
Net Loans	25,290.8	21,131.5	17,756.9
Accrued Interest and Dividends Receivable	295.2	236.2	239.8
Equity Investments	173.5	183.6	478.0
Fixed Assets	1,327.1	1,306.3	1,177.4
Other Assets	925.6	839.4	745.5
Total Assets	**39,683.0**	**34,593.5**	**30,149.3**
Deposits of Banks	868.5	1,093.8	1,311.4
Demand Deposits	*9,673.6*	*8,540.3*	*7,702.4*
Term deposits	*13,362.0*	*11,241.7*	*9,288.6*
Total Non-Bank Deposits	23,035.6	19,782.0	16,991.0
Accrued Interest and Dividends Payable	205.6	156.6	153.0
Borrowed Funds	7,979.1	7,560.8	6,689.5
Other Liabilities	2,461.9	1,565.6	1,026.3
Total Liabilities	**34,550.7**	**30,158.9**	**26,171.1**
Paid-in Capital	1,017.6	928.7	953.4
Capital Reserves	1,145.0	1,127.3	1,273.4
Retained Profits	2,970.0	2,378.7	1,751.4
Equity Capital	**5,132.3**	**4,434.7**	**3,978.2**
Total Liabilities and Equity Capital	**39,683.0**	**34,593.5**	**30,149.3**

Note:

(1) "Investment securities" comprise local currency-denominated Treasury bills, Treasury bonds and the NBG's Certificates of Deposits, all of which are eligible as collateral for the NBG's refinancing facility as well as overnight and intraday loans.

Source: NBG

Lending to customers is the primary activity of banks operating in Georgia. According to NBG data, the overall quality of loans granted by Georgian banks remains stable in 2018. The ratio of non-performing loans (which the NBG classifies as "substandard", "doubtful" and "loss" loans subject to provisioning levels of 30%, 50% and 100% under NBG provisioning guidelines, respectively) to total loans was 5.6% as at 31 December 2018, 6.0% as at 31 December 2017, and 7.3% as at 31 December 2016.

The NBG has never imposed any restrictions on deposit withdrawals and the NBG does not, and is not authorised to, guarantee deposits. As at 31 December 2018, non-bank deposits accounted for 66.7% of total liabilities. As at 31 December 2017, non-bank deposits accounted for 65.6% of total liabilities, while as at 31 December 2016 non-bank deposits accounted for 64.9% of total liabilities.

Foreign investment

There are no legal or regulatory barriers on foreign investment in the Georgian banking sector. Direct competition from foreign banks is not, however, significant at present.

According to information published by the NBG, as of 31 March 2019, there were 15 commercial banks operating in Georgia, of which 14 had foreign capital participation. Georgia's two largest banks have significant foreign ownership: the shares of the holding company of Bank of Georgia and the shares of the holding company of TBC are listed on the London Stock Exchange. See "*Shareholders and Related Party Transactions—Shareholders*".

Major foreign investors in the Georgian banking sector include the EBRD, FMO, IFC, DEG, EIB, EFSE, ADB, Hualing Group, Kreditanstalt ftir Wiederaufbau (the German Reconstruction Credit Institution or

KfW), Joint Stock Company Procredit Holding, Access Microfinance Holding AG (Germany), Finca Microfinance Cooperatief U.A. (Netherlands), VTB Bank (Russian Federation), Halyk Bank (Kazakhstan), Development Bank of the Caucasus (Azerbaijan) and Ziraat Bank (Turkey). In October 2017, European Financial Group B.V. acquired a majority shareholding in JSC Liberty Bank.

The NBG

The NBG is the central bank of Georgia and is responsible for the supervision of the banking sector. Between 2008 and 2009, the supervisory functions of the NBG related to commercial banks and non-bank depositary institutions (except for the supervision of minimum reserve requirements), were transferred to the Financial Supervisory Agency (the "**FSA**"). The NBG Law abolished the FSA and transferred powers to supervise financial institutions and the capital markets to the NBG.

On 3 September 2015 the new set of amendments were introduced to the Georgian banking legislation, including to the NBG Law and Banking Law, which transferred the banking and non-banking supervision from the NBG to the FSA. The legislative changes introduced on 3 September 2015 were largely criticized by various interested groups and were referred to the Constitutional Court of Georgia for consideration of their compliance with the Constitution. In October 2015, the Constitutional Court of Georgia suspended the application of this disputed legislation until a final adjudication over the compliance of the adopted legislation to the Constitution, and the NBG continued to carry out its functions. On 10 March 2017, the Parliament adopted amendments to the relevant laws of Georgia (including the NBG Law and the Banking Law), based on which regulatory and supervisory functions of the Georgian FSA have been assigned back to the NBG.

The NBG's main objective is to maintain price stability. NBG ensures the stability and transparency of the financial system and fosters sustainable economic growth. The NBG is responsible for implementing monetary and foreign exchange policies, supervising the banking sector (including through the setting of minimum reserve requirements), regulating other financial services (including securities), dealing with foreign reserves and acting as the fiscal agent and banker for the Government.

The NBG is an autonomous legal entity of public law. The supreme governing body of the NBG is a board, which consists of seven members. The President proposes board candidates to the Parliament, and the Parliament endorses candidates for a seven-year term. The board then selects the president of the NBG, whose appointment is subject to confirmation by the President. The president of the NBG nominates two vice presidents of the NBG. These appointments are also subject to confirmation by the President.

Banking Supervision

The NBG is the regulator and supervisor of the financial services sector in Georgia (except insurance), including in respect of, *inter alia*, banks and banking groups, non-bank depositary institutions, securities market participants, micro-finance organisations, currency exchange bureaus and money remittance services. The NBG is responsible for the licensing of banks, non-bank depositary institutions and securities market participants in Georgia. In addition, the NBG oversees the registration of micro-finance organisations, currency exchange bureaus and providers of money remittance services and investment funds. The NBG is authorised to issue and revoke licences, carry out on- and off-site inspections and impose restrictions and sanctions. The NBG is also authorised to place banks and non-bank depositary institutions into temporary administration, liquidation or insolvency regimes, as the case may be.

The NBG supervises Georgian commercial banks under risk-based supervision principles within the framework of GRAPE (approved by the NBG President Order No. 32/04 dated 27 March 2014). GRAPE is a continuous cycle of risk-based supervision aimed at assessing the risk levels of commercial banks and developing relevant supervisory actions. Risk assessment is mainly based on the "CAMEL" assessment framework, the consultative documents on the Core Principles of Effective Banking Supervision by the Basel Committee on Banking Supervision, and other best international practices. Within the GRAPE framework, commercial banks' risk levels are assessed according to the following risk categories: (i) credit risk; (ii) liquidity risk; (iii) market risk; (iv) operating risk; and (v) business model and profitability risk, as well as considering the macroeconomic environment, group structure and corporate governance. The assessment involves evaluation of inherent risks and their mitigating factors in each risk category (except in relation to corporate governance risks), during which risk categories are assigned risk weights and levels.

In December 2017, the Parliament adopted amendments to the NBG Law, authorising the NBG to carry out supervision of the banking groups (groups of legal entities comprised of a commercial bank and its parent company/companies, subsidiaries of the bank and its parent company/companies, associated

entities, joint ventures, including domestic and foreign, being financial institutions and/or entities engaged in banking related activities and/or banking holdings). The NBG has the power to: (i) audit the financial statements and other documents of relevant entities both on an individual and consolidated basis; (ii) have full access to the data and documents relating to the supervisory board, management and staff of each member of the banking groups; (iii) assess the risk profile, risk management framework and internal control mechanisms of the banking groups; (iv) set requirements regarding formation of the banking groups' structures, including to request changes (simplifications) to the ownership structure and/or group structure if the existing structure hinders the implementation of effective supervision and/or threatens or may threaten the stability and healthy functioning of the commercial bank and/or financial sector; (v) set capital adequacy, information disclosure, fit and proper persons criteria, corporate governance, reporting and audit related requirements for each commercial bank/member within the group.

The NBG has prepared draft legislative amendments introducing, *inter alia*, the framework for the recovery and resolution of banks that are failing or likely to fail. The draft amendments give the NBG a set of supervisory powers enabling it to intervene if a bank faces financial distress (for example, when a bank is in breach of, or is about to breach, regulatory capital requirements). Early intervention powers include the power of the NBG to require a bank to implement its recovery plan, request the bank to make changes in its business strategy and/or organisational structure, replace the existing managers with temporary administrators and place the bank in temporary administration. The draft amendments provide the NBG with powers to rescue the bank that is failing or likely to fail by using a set of resolution tools, which include, among others, power to sell part of the business of the failing bank, merge the failing bank with another bank or apply bail-in measures, which include converting debt to shares or writing the debt down. The draft of the amendments to the existing laws is currently under discussion and has not been progressed to the Parliament. This reform will be carried out gradually in line with the Bank Recovery and Resolution Directive (BRRD) of the EU, which established an EU wide framework for the recovery and resolution of credit institutions and investment firms.

Licensing

Commercial banks must obtain a licence from the NBG for, and banks are permitted to engage only in, "banking activities" as defined in the Banking Law, which include: (i) receiving interest-earning and interest-free deposits and other returnable means of payment; (ii) extending consumer loans, mortgage loans and other credits (whether secured or unsecured), and engaging in factoring operations with and without the right of recourse and trade finance (including the granting of guarantees, letters of credit, acceptance finance and forfeiting); (iii) buying, selling, paying and receiving monetary instruments (such as notes, cheques and certificates of deposit), securities, futures and options with debt instruments or interest rates, currency and interest instruments, debt instruments, foreign exchange, precious metals and precious stones; (iv) cash and non-cash settlement operations and the provision of cash collection services; (v) issuing payment instruments and managing their circulation (including payment cards, cheques and bills of exchange); (vi) interest-free banking services; (vii) intermediary services on the financial markets; (viii) trust operations on behalf of clients and funds management; (ix) safekeeping and accounting for valuables including securities; (x) credit-information services; (xi) activities of the central depositary as determined by the Securities Market Law; (xii) leasing property; (xiii) provision of payment services, operation of a payment system and acting as settlement agent; and (xiv) leasing property through financial lease; and (xv) activities incidental to each of the above types of services.

The Banking Law provides that any banking activities related to securities shall be regulated by the Securities Market Law and that, prior to tendering interest-free banking services, a commercial bank must present a description of the relevant service for the approval of the NBG. Furthermore, as a result of recent amendments to the Banking Law in December 2017, with effect from January 2019, commercial banks are prohibited from acquiring or possessing property for the purpose of leasing it out. A bank is allowed to lease immoveable property only for the purpose of managing the property repossessed by the bank as a collateral and/or on a condition that during the whole term of the lease the leased property will be used only for banking or banking related activities or for social projects of a commercial bank.

Mandatory Prudential Ratios

The NBG sets limits and rules for calculating capital adequacy, single party and other credit exposures, liquidity ratios and open currency positions. The prudential ratios currently imposed by the NBG are mainly set out in the Regulation on Supervision and Regulation of the Activities of Commercial Banks (NBG President Order No. 69/04 of 28 June 2013) and Regulation on Capital Adequacy Requirements for

Commercial Banks (NBG President Order No. 100/04 of 28 October 2013, hereinafter "**Order 100/04**"). Other NBG regulations related to capital adequacy requirements are also described below. The key mandatory ratios in relation to the commercial banking sector are described below.

Capital Adequacy Requirements

The NBG has established minimum regulatory capital requirements for commercial banks. From 2006 to 2017 the minimum amount of regulatory capital for each commercial bank in Georgia and foreign branches operating in Georgia was set at GEL 12.0 million. On 3 May 2017, the NBG issued Order No. 61/04 gradually increasing the requirements for minimum regulatory capital. Pursuant to the NBG President Order No. 61/04, from 31 December 2018 commercial banks in Georgia are required to have regulatory capital of no less than GEL 50 million as of 31 December 2018.

With the Order 100/04, the NBG introduced a local version of Basel II/III regulations in Georgia. From 30 June 2014 commercial banks had to start complying with the following minimum capital adequacy requirements established by Order No. 100/04:

- Common Equity Tier 1 Capital ratio must be at least 7%;
- Tier 1 Capital ratio must be at least 8.5%; and
- Total Regulatory Capital ratio must be at least 10.5%.

The period starting from 30 June 2014 through 31 December 2017 was declared as a transitional period. During the transitional period (2014-2017), the following capital adequacy ratios set by NBG President Order No. 18/04 of 12 February 2015 ("**Order No. 18/04**") applied in parallel with the above-mentioned requirements:

- Tier 1 Capital ratio (i.e. in respect of a bank, the ratio of its tier 1 capital to RWAs) of minimum 8%; and
- Total Regulatory Capital ratio (i.e. the ratio of bank's regulatory capital to RWAs) of minimum 12%.

Order No. 18/04 phased out gradually and the minimum requirements for a particular year were defined by multiplying the above-mentioned ratios by adjustment factors applicable to the relevant year, i.e. 95% for 2015, 90% for 2016 and 80% for 2017. The capital requirements under Order No. 18/04 are no longer applicable since 2018.

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

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

- the separation of the 2.5% conservation buffer, which was previously merged with minimum capital requirements (Common Equity Tier 1 Capital, Tier 1 Capital and Total Regulatory Capital). Therefore, the updated minimum regulatory capital requirements are currently 4.5% Common Equity Tier 1 Capital, 6.0% Tier 1 Capital and 8.0% Total Regulatory Capital (whereas previously the minimum regulatory capital requirements were 7.0% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Regulatory Capital); and
- the introduction of a requirement that banks hold an additional 'combined buffer' through Common Equity Tier 1 Capital, consisting of conservation, countercyclical and systemic buffers.

The rate for the conservation buffer has been set at 2.5% of RWAs, while a 0% rate has been set for the countercyclical buffer. The countercyclical buffer can vary within the range of 0% to 2.5% and will be reviewed periodically based on the prevailing financial and macroeconomic environment. In addition, the NBG designated three commercial banks in Georgia, including TBC, as DSIBs for which individual systemic buffers have been introduced, which means that the DSIBs will be required to set aside more Common Equity Tier 1 Capital relative to RWAs, with the requirements being phased in from the end of

2018 to the end of 2021. In particular, the following systemic buffers and compliance timeframes have been set by the NBG in relation to TBC: 1.0% for the period from 31 December 2018 to 31 December 2019, 1.5% for the period from 31 December 2019 to 31 December 2020, 2% for the period from 31 December 2020 to 31 December 2021, and 2.5% from 31 December 2021 onwards.

Pillar 2: In accordance with the Basel III framework, the NBG also introduced additional capital buffer requirements for commercial banks within Pillar 2 that are based on a supervisory review and assessment process and deal with bank-specific risks that are not sufficiently covered under Pillar 1, including an unhedged currency induced credit risk buffer and a net general risk assessment programme buffer. The NBG has also introduced a credit portfolio concentration buffer and a net stress test buffer. The credit portfolio concentration buffer has become effective from 1 April 2018 and the net stress test buffer will be effective from 1 January 2020. Capital buffers under Pillar 2 should be proportionately incorporated in capital requirements (Common Equity Tier 1 Capital 4.5%, Tier 1 Capital 6.0% and Total Regulatory Capital 8.0%). Therefore, under the NBG regulation, 56% of the capital required under Pillar 2 should be held through Common Equity Tier 1 Capital, while 75% of the capital should be held through Tier 1 Capital and 100% of the capital should be held through Total Regulatory Capital. Commercial banks have been given appropriate timeframes for the purposes of complying with these requirements, as the additional Pillar 2 buffers will be implemented over a five-year transitional period, during which the required composition of the buffers will become more stringent by increasing the required proportions of Common Equity Tier 1 Capital and Tier 1 Capital.

As at 31 December 2018, the minimum capital requirements increased to a Common Equity Tier 1 Capital ratio of 9.7% (comprising core Common Equity Tier 1 Capital requirement of 4.5% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 1.7%), a Tier 1 Capital ratio of 11.8% (comprising core Tier 1 Capital requirement of 6.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 2.3%) and a Total Regulatory Capital ratio of 16.7% (comprising core Total Regulatory Capital requirement of 8.0% and combined buffer of 3.5% (Pillar 1 requirements) and Pillar 2 requirements of 5.2%). Capital requirements that TBC Bank is subject to, in particular Pillar 2 requirements, are set by the NBG from time to time.

Leverage ratio requirement

On 26 September 2018, the president of the NBG adopted the Decree No. 214/04 on approval of the Regulation on Leverage Ratio Requirements for Commercial Banks, introducing a minimum leverage ratio requirement, as well as standards and elements for calculation of the leverage ratio for commercial banks. The leverage ratio requirement acts as a supplementary measure to the Regulatory Capital requirements described above and is intended to restrict the build-up of excessive leverage in the banking sector. The NBG required Georgian commercial banks to have in place internal policies and procedures for identification, management and monitoring of excessive leverage.

The leverage ratio is defined as a bank's capital measure divided by its exposure measure, with this ratio expressed as a percentage. Capital measure for the leverage ratio is the Tier 1 capital of the Regulatory Capital. The exposure measure is the sum of the following exposures net of specific provisions or accounting valuation adjustments: (i) on-balance sheet exposures; (ii) derivative exposures; (iii) securities financing transaction exposures; and (iv) off-balance sheet items. The minimum leverage ratio requirement is set at 5%.

Breach of capital requirements

If TBC Bank fails to meet the Pillar 1 ratios, it may be subject to different types of supervisory measures. Depending on the seriousness of the violation, the NBG is authorised to impose sanctions, including suspension of the signatory authority of TBC's administrators, suspension or restrictions on asset growth, distribution of profits, payment of dividends and bonuses and salary increases and receipt of deposits or, placing the bank in temporary administration, and in severe cases, withdrawal of TBC's licence. If TBC Bank fails to meet the leverage ratio requirements and/or the combined buffer requirement (the sum of the conservation buffer, countercyclical buffer and systemic risk buffer), it will be subject to distribution restrictions in relation to Common Equity Tier 1 Capital, additional Tier 1 Capital instruments, variable remuneration (bonuses) and possibly other distribution constraints imposed by the NBG. In addition, in case of breach of the combined buffer, TBC Bank must submit a capital conservation plan to the NBG about the steps it will take to ensure compliance with the combined buffer requirements. If the NBG assesses that the capital conservation plan is not adequate, it may request TBC Bank to implement additional measures and/or impose further sanctions. The decision on the timing and character of

sanctions is the discretion of the NBG and depends on the seriousness of a breach and possible risks. It is considered that the breach of systemic risk buffer is a more serious violation and subject to stricter sanctions. If TBC Bank fails to meet the Pillar 2 requirements, it may be subject to different types of supervisory measures or sanctions from the NBG. The character of such measures or sanctions is the discretion of the NBG and depends on the seriousness of the breach.

Additional Tier 1 Capital Regulations

Pursuant to the NBG President Order No. 100/04, commercial banks require the approval of the NBG for inclusion of the newly issued instruments into the calculation of its regulatory capital, either in Tier 1 or Tier 2. Consequently, in order for a Georgian commercial bank to include security instruments, such as securities, within Additional Tier 1 capital instruments, it must first obtain an approval of the NBG. Therefore, the relevant bank must submit to the NBG the necessary documentation explaining how the instrument complies with the criteria applicable to the relevant element of its regulatory capital. Total Regulatory Capital of a Georgian bank will consist of the sum of the following elements: (a) Tier 1 Capital consisting of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital; and (b) Tier 2 Capital (gone-concern capital). Tier 1 Capital shall consist of instruments that have capacity to unconditionally absorb losses as they arise, allowing the bank to remain in business. The Tier 1 Capital instruments must also allow for full discretionary payments (non-payment shall not constitute an event of default) and for full principal loss absorption. Tier 2 Capital is a going-concern capital which shall consist of instruments that have the capacity to absorb losses ahead of depositors and unsecured creditors of the bank in a liquidation scenario and/or a scenario whereby the bank is in significant financial difficulty.

Additional Tier 1 Capital shall equal the sum of Additional Tier 1 Capital elements less regulatory adjustments applied in the calculation of Additional Tier 1 Capital. Additional Tier 1 Capital consists of the sum of the following elements: (a) instruments issued by the bank that meet the criteria for inclusion in Additional Tier 1 Capital (and are not included in CET1 Capital); (b) stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 Capital. A bank’s Additional Tier 1 capital may consist of instruments that are not included in Tier 1 but satisfy the criteria in order to be included in this tier, together with stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital (less regulatory adjustments). For a capital instrument to be included in Additional Tier 1 Capital, pursuant to the NBG President Order No. 100/04, it must be: (i) issued and paid-in; (ii) subordinated to depositors, unsecured creditors and subordinated debt of the bank; (iii) neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors; and (iv) perpetual, i.e. there is no maturity date and there are no step-ups or other incentives to redeem.

Further, Additional Tier 1 Capital instruments may be callable at the initiative of the issuer only after a minimum of five years and subject to the following: (i) to exercise a call option a commercial bank must receive prior approval from the NBG; (ii) the bank must not do anything which creates an expectation that the call will be exercised; (iii) the bank must not exercise a call unless (a) they replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or (b) the bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised. Any repayment of principal (e.g. through repurchase or redemption) must be subject to prior approval of the NBG and the bank should not assume or create market expectations that the NBG approval will be given.

As for any kind of dividend/coupon on Additional Tier 1 Capital instruments: (i) the bank must have full discretion at all times to cancel distributions/payments; (ii) cancellation of discretionary payments must not be an event of default; (iii) the bank must have full access to cancelled payments to meet obligations as they fall due; and (iv) cancellation of distributions/payments must not impose restrictions on the bank except in relation to distributions to ordinary shareholders (common stockholders). Dividends/coupons must be paid out of distributable items and the instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organization’s credit standing/rating.

Additional Tier 1 Capital instrument cannot contribute to liabilities exceeding assets, and instruments classified as liabilities for accounting purposes must have principal loss absorption through either: (a) conversion to common shares at an objective pre-specified trigger point; or (b) a write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down shall have the following effects: (i) to reduce the instrument holder’s claim during liquidation; (ii) to reduce the

amount to be re-paid when a call is exercised; and (iii) to partially or fully reduce coupon/dividend payments on the instrument.

Neither the bank nor a related party over which the bank exercises control or significant influence may have purchased the instrument in question, nor may the bank directly or indirectly have funded the purchase of the Additional Tier 1 Capital instrument. The instrument cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame. The instrument financed by a natural person that represents a liability for accounting purposes, shall be included in the Additional Tier 1 Capital only if the nominal contractual amount of the instrument (or minimum nominal value, in case of securities) is at least GEL 1,000,000.

Other prudential ratios

Other the key mandatory ratios in relation to the commercial banking sector include the following:

Related party lending ratios: Credit to an insider (or his or her other liabilities to a bank) must not exceed 5% of the bank's Total Regulatory Capital. The aggregate amount of all credits (and other liabilities) extended to all insiders must not exceed 25% of the bank's Total Regulatory Capital.

Lending ratios: Credit to an outsider (or his or her other liabilities to a bank) must not exceed 15% of the bank's Total Regulatory Capital. Aggregate of all credits (and other liabilities) extended to a group of related outsiders may not exceed 25% of the bank's Total Regulatory Capital. Total large loans and other liabilities (defined as loans to a single borrower or a group of related borrowers in excess of 5% of Total Regulatory Capital) extended to borrowers may not exceed 200% of the bank's Total Regulatory Capital.

Liquidity ratios: Average liquid assets held by the bank must not be less than 30% of average liabilities over the course of any month, although the NBG may grant exceptions to this limit on a case-by-case basis.

Liquidity coverage ratio: LCR shall not be less than 100% for all currency assets cumulatively. In addition the LCR shall be calculated with respect to Lari and foreign currency assets separately and shall be no less than 75% and 100% respectively.

Investment ratios: Total investments in the capital of legal entities must not exceed 50% of the bank's share capital. The carrying value of a bank's fixed assets together with the total investments in the capital of legal persons must not exceed 70% of bank's share capital.

Unsecured funds from Government and Public organisations ratio: Unsecured funds from state institutions and state-controlled entities must not exceed 100% of the bank's share capital.

Open exchange position: The cumulative open exchange position (which includes off-balance sheet items) must not exceed 20% of a bank's Total Regulatory Capital.

Net stable funding ratio: From September 2019, Georgian commercial banks will be required to maintain NSFR which calculates the proportion of available stable funding via the liabilities over the required stable funding for the assets. NSFR of a commercial bank must be no lower than 100%.

Provisioning

Banks are required to set aside adequate provisions to cover potential losses on loans and other risk assets. These provisions are reviewed and reported to the NBG on a monthly basis. Pursuant to the "Regulation on Asset Classification and Creation and Use of Reserves for Losses by Commercial Banks", approved by order of the NBG President No. 117/04 of 10 August 2017 (which replaced the order of the NBG President No. 51/04 of 17 June 2014), loans are classified into five groups according to their risk exposure and subject to varying provisioning requirements: "standard", "watch", "doubtful", "substandard" and "loss".

The NBG has established the following provisioning requirements for loan loss reserves: 2% for standard loans, 10% for loans on watch, 30% for sub-standard loans, 50% for doubtful loans and 100% for bad loans (classified as "loss").

Responsible Lending to Individuals

On 24 December 2018, the NBG adopted Order No. 281/04 approving Regulation on Lending to Individuals (the "**Regulation on Lending to Individuals**"). The Regulation on Lending to Individuals sets forth requirements and restrictions that apply to all loans issued by commercial banks and other lending institutions to individuals and/or sureties/collaterals provided by individuals to the lending entities (with exception of certain types of loans, sureties/collaterals envisaged in the said regulation). The Regulation on Lending to Individuals introduces the principle of "responsible lending" according to which lending entities, including banks, are permitted to issue loans to individuals only after completing a comprehensive analysis of the borrower's/co-borrower's ability to repay loan/credit and the impact of the credit repayment on the borrower's/co-borrower's financial capabilities. In addition, the regulation sets maximum limits on PTI and LTV ratios and maturity of different loans.

The PTI ratio sets limits on maximum loan payments, which are determined proportionally to a borrower's disposable income. The LTV ratio determines the maximum value of a loan, according to the market value of the real estate used as collateral for the loan. The NBG considers that this ratio shall ensure the sustainability of the financial sector in the event of real estate price reductions and also restricts the formation of a real estate price bubble. The NBG can change PTI and LTV ratio requirements in relation to financial cycles and may vary depending on domestic and foreign currencies. Current upper limit on LTV ratio is 85% for loans denominated in GEL and 70% for loans denominated in foreign currency. Current PTI ratios applicable under the new regulation are as follows:

Monthly Net Income in GEL	PTI upper limit for unhedged borrower	PTI upper limit for hedged borrowers[1]
<1,000	20% - 25%	25% - 35%
>=1,000 - 2,000<	20% - 25%	35% - 45%
>=2,000 - 4,000<	25% - 30%	45% - 55%
>=4,000	30% - 35%	50% - 60%

Note:

(1) "Hedged" borrower is the borrower whose monthly income is at least equal to the monthly loan payments on the loan and is in the same currency.

In case of several loans denominated in different currencies the PTI limit is the weighted average of respective loans' upper limits.

Under the Regulation on Lending to Individuals, the maturity limit on mortgage loans is 15 years; with respect to consumer loans that are secured by immovable property, a maximum loan maturity is 10 years; with respect to automobile/transport/vehicle loans—six years and four years' maturity for other consumer loans to individuals (except for revolving products). The Order No. 281/04 has become effective on 1 January 2019.

Restrictions on Issuing Loans in Foreign Currency

At the end of 2016, the Government presented the so-called "10-Point Larisation Plan" aimed at increasing access to long-term Lari-denominated loans, adequate sharing of foreign exchange risks and pricing in Lari. Based on the 10-Point Larisation Plan, changes were made to Georgian legislation, including the Civil Code of Georgia and the NBG Law in January 2017 and December 2018 subsequently. These changes included restrictions on issuing small credits and loans in foreign currency, limitations relating to attraction of funds from individuals, requirement of expressing prices in Lari in offering and/or advertising of goods and services. Effective from January 2019, bank credits and loans up to GEL 200,000 may only be issued in Lari. The creditor loan will not be deemed to be issued in Lari if it is indexed or linked to a foreign currency. This restriction does not apply to the credits and loans issued by commercial banks to individuals who are not Georgian citizens and legal entities incorporated outside Georgia.

Limits on Interest Rates and Financial Sanctions

Legislative changes carried out in January 2017 introduced caps on effective interest rates, commissions, penalties and other financial sanctions related to credits and loans. In July and subsequently in December 2018, further amendments were introduced to the legislation, which reduced and made the caps on effective interest rate, commissions, penalties and other financial sanctions more stringent.

Following recent amendments to the Civil Code of Georgia, the annual effective interest rates (as defined by the NBG rules) for loans in general, including the loans issued by commercial banks shall not exceed 50% of the loan principal (from January 2017 until September 2018 the cap on annual effective interest rate was set at 100%). The NBG is entitled to apply additional limitations on monthly interest rates established by commercial banks. The sum of all commissions and financial expenses (that are not included in the calculation of an effective interest rate), as well as penalties accrued for a breach of any contractual provision and any type of financial sanctions (except commissions for prepayment) shall not exceed 0.27% of the outstanding principal amount of the credit or loan, per day. In case of delay of loan repayment, the sum of all commission and financial expenses (including interest rate and all expenses included in the calculation of an annual effective interest rate), as well as penalties accrued for a breach of any contractual provision and any type of financial sanction shall not exceed in total 150% of the outstanding principal amount of the credit or loan.

Commission and/or penalties and any other financial sanctions for prepayment of a credit or loan may not exceed 2% of its outstanding principal amount. Based on the NBG's new "Rule of Customer Rights Protection During the Provision of Services by Financial Institutions", with effect from 1 June 2017, commercial banks are subject to additional limits on sanctions for prepayment: 0.5%, 1% and 2% of the outstanding principal amount, depending on the number of months remaining until the end of the credit or loan agreement.

Anti-monopoly policy

The NBG is responsible for promoting a competitive environment in the banking sector. For that purpose, the NBG may collaborate with the Competition Agency of Georgia to investigate cases of infringement of competition. There is no other regulatory body that is permitted to regulate anti-monopoly policies in the Georgian banking sector.

Reserve requirements

Under the NBG Law, the NBG may establish reserve requirements for banks and it may impose a fine on a bank that fails to comply with these reserve requirements. These requirements are determined separately in Lari and foreign currencies depending on the average attracted funds, in order to promote the continued development of the domestic interbank market. Based on NBG Order No. 10/04 (dated 11 February 2011) (as subsequently amended), the minimum reserve requirements are set at 5% for Lari funds. With effect from 16 May 2019, the minimum reserve requirements for foreign currency funds and for borrowed funds in foreign currency with a remaining term of between 365 and 730 are set at 30% and 15%, respectively. The requirements do not further distinguish between funds borrowed from residents or non-residents. The amount of capital funds borrowed from the NBG and resident commercial banks (or equivalent funds) and various other liabilities are also not included in calculation of the relevant reserves.

Corporate governance

General

Until 26 September 2018 Georgia did not have a statutory code of corporate governance. Prior to that, the NBG officially requested commercial banks to establish best corporate governance practices according to the 1999 OECD Corporate Governance Principles. Furthermore, under the Banking Law, banks must observe the international practice in case the NBG has not issued detailed regulation with respect to specific banking activity.

On 26 September 2018, the NBG adopted the Corporate Governance Code. The Corporate Governance Code implements internationally recognised practices, including Basel Committee's guidelines on Corporate Governance Principles for Banks, OECD Principles of Corporate Governance, requirements of EU directives (CRD IV—CRR) and recommendations of the European Banking Authority. The recently adopted Corporate Governance Code sets forth requirements in respect of composition of supervisory boards, which includes providing requirements on gender diversity in the board and a minimum number of independent board members. In addition, the Corporate Governance Code defines the standards for creating supervisory board committees, duties and responsibilities of the board of directors, risk management, internal audit and remuneration standards.

The Corporate Governance Code provides that in case certain issues related to corporate governance are not regulated by the Corporate Governance Code, a bank, with the approval of the NBG, should use the

best international practices including those adopted by the Basel Committee on Banking Supervision, OECD, and/or the London Stock Exchange. The NBG is authorised to impose individual/bank specific corporate governance requirements upon particular banks by taking into account the systemic importance, risk profile, capacity, ownership structure and other characteristics of the relevant bank.

In July 2018, prior to adoption of Corporate Governance Code, the NBG adopted a Code of Ethics Principles and Standards of Professional Conduct for Commercial Banks (the "**Ethical Code**"). The purpose of the Ethical Code is to establish internationally recognised ethical and professional standards in the banking sector in order to increase public's trust in the banking sector and in the banking profession, and to promote stable and efficient functioning of the banking sector. The Ethical Code defines the minimum standards of ethical and professional conduct which shareholders, administrators and employees of Georgian commercial banks must uphold. The code is based on the code of ethics and standards of professional conduct established by CFA.

TBC invests significantly in continuous improvements of its internal practice in order to meet both bank-specific regulatory recommendations and TBC's intention to uphold and maintain strong corporate governance standards.

The Banking Law imposes certain governance rules in respect of shareholdings in, and management of, commercial banks. The members of the supervisory boards of banks may not perform executive functions.

The NBG has also established "fit and proper" criteria for the regulation of a bank's management and supervisory board (as described below).

Regulation of commercial bank employees and supervisory board members

Pursuant to the Regulation on Compatibility Criteria of Administrators of Commercial Banks (Order No. 50/04 dated 17 June 2014, the "**Regulation on Compatibility Criteria**"), persons discharging managerial or supervisory functions of commercial banks must fulfil the "fit and proper" compatibility criteria in order to ensure they are fit for their position.

The "fit and proper" compatibility criteria apply to the following persons discharging managerial or supervisory functions: members of the supervisory board, audit committee and the management board of commercial banks; and other persons discharging managerial or supervisory functions of commercial banks who are authorized to undertake responsibilities independently or jointly with one or more persons on behalf of such banks (each referred to as "**Administrator**").

According to the Regulation on Compatibility Criteria, any person to be appointed as an Administrator of a commercial bank must comply with the following compatibility criteria:

- each member of the bank's supervisory board, audit committee and management board must have a university degree in economics, finance, banking, business administration, auditing, accounting or law or other relevant education that is necessary to perform the functions assigned to them;
- a member of a commercial bank's supervisory board must have relevant qualifications and professional experience and the supervisory board as a whole should combine different experience and skills corresponding to the scope and complexity of the activities of the bank;
- each member of the bank's management board must have relevant qualifications and professional experience and at least four years' experience in the finance sector, including two years as a senior manager (head or deputy head of a structural unit);
- a person to be appointed as a director may not be a member of the supervisory board or the audit committee of the same bank and/or of any other commercial bank, non-bank depositary institution-credit union and/or an Administrator of any other enterprise;
- a person to be appointed as a director or as an Administrator with other executive functions must be a Georgian resident (this requirement shall be fulfilled within seven months after the appointment); and
- a member of the supervisory board, management board or audit committee of a bank may not be in a 1st or 2nd degree of kinship (i.e. spouse, child, close relative) to a member of management or supervisory board of the same bank.

As an additional requirement a person may not be an Administrator of bank if he/she:

(a) has taken part in any operation or transaction that has:

    (1) resulted in substantial damages for a commercial bank or a non-bank depositary institution—credit union and violated the rights of their depositaries or other creditors; and/or

    (2) caused insolvency or bankruptcy of a commercial bank or a non-bank depositary institution—credit union;

(b) has abused his/her authority as an Administrator of a commercial bank or a non-bank depositary institution—credit union;

(c) has previously served as an Administrator of a commercial bank or a non-bank depositary institution—credit union and as a result of his/her activities, the commercial bank or the non-bank depositary institution—credit union became insolvent;

(d) has failed to fulfil one or more financial obligation towards a commercial bank or a non-bank depositary institution—credit union;

(e) has been declared insolvent (bankrupt);

(f) has been convicted of a grave or especially grave offence, terrorism financing and/or money laundering or other economic crime;

(g) has been declared legally incapable by the court;

(h) has no relevant skills and qualification required for the position held; and/or

(i) is an Administrator of another commercial bank that does not control or is being controlled by the said bank.

Banking Law further specifies that a person may not be appointed to the management or supervisory board of a bank if he/she is not authorised to hold such a seat pursuant to law. The NBG is authorised to establish additional compliance criteria for members of the management board and supervisory board of a bank with a normative act.

Acquisition of interests in Georgian banks and ongoing shareholder reporting obligations

Pursuant to the Banking Law, a person who has been convicted of a grave or especially grave offence, terrorism financing, money laundering or other economic crimes, may not hold a significant shareholding. A significant shareholding is defined for these purposes as more than 10% of either the authorised share capital or of the fully paid-up issued share capital or of voting shares held directly or indirectly by a person or a group of shareholders acting in concert, and/or ability of a person or a group of shareholders acting in concert to exercise significant influence over the activities of the bank, notwithstanding the amount of shares such person or group owns in the capital (significant influence is defined as a right to participate in the financial or operating policy decisions of the bank, without having control or joint control over such policy) of a commercial bank.

Under the Banking Law, a person or a group of shareholders acting in concert intending to acquire shares in a Georgian bank, and who (or whose beneficial owner(s)) as a result of such acquisition would directly or indirectly own more than 10%, 25% or 50% of the share capital of the bank, must submit a declaration, and other required information, to, and obtain prior approval from, the NBG. Acquisitions of significant shareholding in a Georgian bank's share capital without NBG approval are deemed to be null and void. If there are grounds for suspicion, the NBG may request a bank to submit a declaration as to the direct, indirect or beneficial holders of more than 10% of its share capital, and may temporarily or indefinitely suspend the voting rights of such shareholder or require such shareholder to reduce its shareholding to 10%. The NBG is entitled to deny approval if the transaction may endanger stability of Georgia's financial sector, result in breach of requirements established by international organisations or by Georgia's international agreements or if the person wishing to acquire shares in a commercial bank fails to provide all necessary information about the origin of funds used to purchase such shares. The NBG is authorised to establish additional compliance criteria for holders of significant shareholding with a normative act.

Furthermore, as a result of amendments adopted to the Banking Law in December 2017, a person who intends to sell shares in a Georgian bank and, as a result of the relevant sale, has its holding fall below

10%, 25% or 50%, is required to notify the NBG prior to such sale and provide detailed information regarding such transaction.

There are certain reporting obligations related to the ownership of a significant shareholding of a Georgian bank. Pursuant to the Banking Law, a commercial bank is required to submit to the NBG, together with its annual report, information on the direct and beneficial holders of more than 10% of its share capital. Such information must be prepared in reliance on the information available to the commercial bank, which must also note whether or not it confirms the accuracy thereof. In addition, any person that directly or indirectly beneficially owns more than 10% of shares of a bank must submit a declaration to the NBG in April of each calendar year as to the amount of its shareholdings as at 31 December of the preceding calendar year.

Reporting requirements

All banks are subject to inspection by the NBG. Inspectors may examine a bank's accounts, books, documents and other records and those of its subsidiaries and may require its offices, employees and agents to provide any and all information and documents upon their request. On-site inspections are risk-based, concentrating on loan portfolio quality, asset qualification, collateral quality and loan application decisions.

Banks are required to submit the audited annual IFRS financial statements and related external audit reports to the NBG and to publish them. Banks are also required to submit different mandatory NBG rules-based financial reports to the NBG, in a specially designed template on a regular basis.

Deposit insurance

Until May 2017, there had been no mandatory deposit insurance scheme in place in Georgia. According to the EU Association Agreement, certain provisions on deposit-guarantee schemes must have been implemented within six years of the entry into force of the EU Association Agreement. Georgia was allowed to consider different levels of thresholds than the ones outlined in the Directive 94/19/EC.

In May 2017, the Parliament adopted a new Law on System of Deposit Insurance, according to which deposits of individuals are subject to insurance coverage up to the amount of GEL 5,000. Most provisions of the this new law became effective from 1 January 2018, except the provision regarding determination of specific percentage of a monthly premium by Deposit Insurance Agency of Georgia (the "**Deposit Insurance Agency**") which will enter into force on 1 January 2020. The insurance premium payable by commercial banks consists of: (i) an initial premium of GEL 100,000; (ii) a monthly premium, which shall not exceed 0.067% of Lari-denominated deposits and 0.1% of foreign currency denominated deposits provided that the specific percentage of the premium for each commercial bank will be determined by the Deposit Insurance Agency on an annual-basis through a risk-based assessment of the bank; and (iii) a special premium determined by the Deposit Insurance Agency if upon occurrence of an insurance event there are insufficient funds in the deposit insurance fund to compensate the insured deposits. From 2020 the Government plans to extend mandatory deposit insurance coverage to legal entities.

Insolvency Regime

The NBG is entitled to cancel and revoke the banking licence of any bank that becomes insolvent, as well as under certain other circumstances. Upon revocation of its licence, the bank is liquidated in accordance with the procedure set forth in the Banking Law.

If the liquidated commercial bank was a payment system operator or a settlement agent, then upon appointment, the liquidator must settle any transfer orders received by the system prior to its appointment, establish settlement positions of the system participants and/or execute settlement in accordance with the Law of Georgia on the Payment System and Payment Service, as applicable. In the commercial bank liquidation process, creditors holding financial collateral are entitled to the preferential satisfaction of their claim secured by such financial collateral. The proceeds of the bankruptcy estate of an insolvent bank are required to be distributed among all its other creditors in the following order:

- *first:* all claims of the NBG and other creditors which arose after revocation of the bank's licence (except for the loans issues by other commercial banks during the liquidation process);
- *second:* all claims of the Deposit Insurance Agency;

- *third:* amounts on the accounts and certificates of deposit amounts of natural persons not exceeding GEL 10,000 (or its equivalent in other currency);
- *fourth:* amounts on the accounts and certificates of deposit amounts of legal entities not exceeding GEL 10,000 (or its equivalent in other currency);
- *fifth:* amounts on the accounts and certificates of deposit amounts of natural persons not exceeding GEL 100,000 (or its equivalent in other currency);
- *sixth:* amounts on the accounts and certificates of deposit amounts (in national currency) of natural persons not paid under the third and fifth items above;
- *seventh:* amounts on the accounts and certificates of deposit amounts (in foreign currency) of natural persons not paid under the third, fifth, and sixth items above;
- *eighth:* amounts on the accounts and certificates of deposit amounts (in national currency) of legal entities not paid under the fourth item above;
- *ninth:* amounts on the accounts and certificates of deposit amounts (in foreign currency) of legal entities not paid under the fourth and eighth items above;
- *tenth:* loans issued by other commercial banks during the liquidation period;
- *eleventh:* indebtedness to the State Budget, including claims secured by tax liens;
- *twelfth:* all other claims against a bank, except for thirteenth to sixteenth items below;
- *thirteenth:* bank's loans from its direct and indirect owners, except for the fourteenth and fifteenth items below;
- *fourteenth:* a fixed-term subordinated loan of a bank;
- *fifteenth:* subordinated loan (non fixed-term) of a bank; and
- *sixteenth:* other obligations of a bank toward its direct and indirect owners.

If there are insufficient funds to fully cover all claims listed in above, all of the claims of each creditor within the relevant category shall be paid on a pro-rata basis and the claims of the subsequent category shall be paid only after the claims of the previous category have been fully paid.

Anti-Money Laundering Legislation

The Law of Georgia on Facilitating Elimination of the Legalisation of Illegal Income (the "**AML Law**") came into force on 1 January 2004. The AML Law strengthened control over the movement of funds within Georgia and introduced a new independent legal entity of public law, Financial Monitoring Service (the "**FMS**"), to monitor and supervise AML and counter terrorism financing measures and to issue decrees setting out further preventative measures and reporting requirements.

A number of decrees have been implemented and amendments made to the AML Law since its adoption, including, *inter alia*, a requirement for enhanced due diligence measures to be applied when business relationships are established with politically exposed persons. In addition, following amendments to the Georgian Criminal Code between 2006 and 2008, all material elements of money laundering and terrorist financing crimes are explicitly covered under Georgian criminal legislation, including in relation to legal persons. Amendments were made to Georgian criminal legislation in 2005 to align it with the Council of Europe Strasbourg Convention of 1990 on "Laundering Search, Seizure and Confiscation of the Proceeds of Crime".

The FMS operates as an independent body, which reports to the Government. The FMS conducts its activities in close cooperation with MONEYVAL (the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism), of which Georgia is a member, and in accordance with Financial Action Task Force recommendations and EU directives, notwithstanding the fact that Georgia is not a member of either of the latter two bodies.

On 8 - 11 December 2015, the 49th plenary session of MONEYVAL took place. The plenary acknowledged the significant progress achieved by Georgia in the implementation of the Financial Action Task Force recommendations for combating money laundering and terrorism financing. In particular, the committee recognized that the Georgian authorities addressed the majority of shortcomings identified in the 2012 evaluation report and decided to remove Georgia from the regular follow-up process.

Under the AML Law, all banks are obliged to monitor and report to the FMS all suspicious transactions, irrespective of value, and certain types of transactions listed in the AML Law if the value of a transaction (or any group of related transactions) exceeds GEL 30,000 (or the foreign currency equivalent). If the FMS receives a report of a transaction that it believes may be related to money laundering or the financing of terrorism, the report must be forwarded to the appropriate departments of the General Prosecutor's Office of Georgia and to the Ministry of Internal Affairs of Georgia and/or State security Service of Georgia.

Most banks and other financial institutions employ compliance officers who adhere to the "Core Principles for Effective Banking Supervision" published by the Basel Committee on Banking Supervision in practice. In addition, banks are obliged to comply with the statutory "Know Your Client" regulations introduced by the FMS. These standards established a number of processes to identify customers and potentially suspicious transactions, in order to reduce instances of money laundering.

The NBG is authorised to carry out on-site and off-site inspections of AML issues arising in the financial sector and has dedicated budget resources and personnel to carry out such inspections and report to the FMS on any breach of the AML Law or related regulations.

In March 2014, the Government approved the Action Plan (as amended in December 2015) for the implementation strategy for the Fight against Money Laundering and Terrorist Financing (2014 - 2017). The document has been developed based on 40 recommendations of the Financial Action Task Force to strengthen the current systems to fight against money laundering and terrorist financing. The body responsible for supervising the implementation of the Action Plan is the Interagency Coordinating Council, comprised of the relevant government bodies.

Banking Regulation in Azerbaijan

In 2019, TBC signed partnership agreements with Nikoil OJSC ICB whereby it intends to consolidate: TBC's subsidiary in Azerbaijan, TBC Kredit, with Nikoil OJSC ICB by contributing the entire issued share capital of TBC Kredit to Nikoil OJSC ICB in exchange for the transfer of a corresponding number of shares in the Nikoil OJSC ICB (the "**Transaction**"). TBC has a call option in relation to call option shares (number of shares to enable TBC to hold, in aggregate, 50% plus one share) to be exercised within 4 years from the date of closing of the Transaction. See "*Description of Business—Other operations*".

On 10 March 2016, the President of the Republic of Azerbaijan established the Chamber for Control of Financial Markets (the "**Chamber**"). The Chamber assumed the functions of several state bodies: the State Committee for Securities, the State Insurance Supervision Service of the Ministry of Finance of Azerbaijan and the Financial Monitoring Service under the CBAR. Under the new regulation, the Chamber assumed responsibility for many of the functions that were previously overseen by the CBAR, and the Chamber is now the public legal entity that licenses, regulates and supervises participants of the securities market, investment funds, insurance and credit organisations (banks, non-banking credit organisations and postal operators) and payment systems and ensures transparency and flexibility in its supervision.

Azerbaijani banks are required to maintain minimum total regulatory capital of AZN 50 million. The Chamber monitors compliance with the capital adequacy requirements and currently requires Azerbaijani banks to adhere to the statutory capital methodology calculated using statutory accounting information and monthly reporting of capital ratios. It is expected that aspects of Basel III will be implemented in the Republic of Azerbaijan in the coming years. According to current requirements, the Tier I capital shall not be less than 50% of the bank's total regulatory capital. The minimum capital ratios are 6% for Tier I capital and 12% for total capital. Tier II capital may equal but not exceed Tier I capital.

Obtaining approval to acquire shares in a licensed bank is a process which typically takes up to two years. See "*Description of Business—Other operations*".

LENDING POLICIES AND PROCEDURES

Lending Policies

TBC lends to retail, corporate and MSME clients, providing a variety of lending products such as loans, credit lines, overdrafts, credit cards, letters of credit and guarantees. TBC's credit policies establish a framework for lending decisions reflecting its tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various tiers, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

TBC divides its credit portfolio into three segments in order to manage it more effectively: retail, corporate and MSME. The credit portfolio of each segment is governed by the rules set out in the corresponding policies, procedures and guidelines, which are regularly updated.

Retail loans

Retail lending entails originating a large number of smaller value loans to individuals. TBC offers its retail clients different credit facilities, such as mortgage loans, consumer and auto loans, POS loans, credit cards and overdrafts.

The loan approval procedures for retail loans depend on the type of credit facility sought. Different procedures are in place for assessment of: (i) mortgage, secured consumer, and auto loans; and (ii) unsecured consumer loans, POS loans, credit cards and overdrafts.

For mortgage, consumer and auto loans, the application and approval process involves a client interview to obtain information relating to the intended purpose of the loan, the borrower's income, repayment capacity, credit history and collateral provided. Applications are processed through a special loan origination software. Once an application has been run through the software, the software automatically takes information from all relevant databases and applies pre-defined calculations based on the borrower's income, risk profile and outstanding liabilities. The borrower's income is verified either based on TBC Bank's account turnover, data obtained from the Revenue Service database or during an on-site visit to the borrower's workplace. The collateral for the loan is appraised by an internal appraiser (or, if the borrower is related with TBC Bank, an independent external appraiser). To avoid conflicts of interest, appraisers are independent from the loan granting process. Following the conclusion of the initial review, a credit application is submitted for approval to the centralised retail loan approval committee. TBC classifies its loan approval committees under various "tiered approval levels" according to the size of the loan, title and function of the individual committee members. Depending on the amount of the loan required by a customer, a respective loan approval committee will review the loan request based on specified limits as to the risk level of the customer.

Applications for unsecured consumer loans and credit cards are originated at TBC's branches, as well as via internet banking, mobile banking, web applications, ATM, TBC pay machines and call centres. POS loan applications are originated at merchants. These applications are also run through loan origination software, with the decision making process being largely automated. Borrowers receive a credit score that reflects the outcome of the borrower's risk profile assessment based on the scorecard models and credit bureau grading. Scoring is applied once the borrower meets the minimum requirements for the product, such as age, minimum income, and other related criteria. Scorecard models differ based on products and customer segments. Automated approval decisions are subject to risk determined cut-offs, and certain applications undergo a manual review process by a designated group in the Centralised Operations Processing Department or in the Retail Underwriting Department in the case of unsecured consumer loans. Income verification is performed for all approved applications in accordance with the NBG's regulation.

In 2005, TBC Bank, together with certain other Georgian banks and Creditinfo Group, a provider of credit information solutions, established JSC CreditInfo Georgia (the "**CIG**") to serve as a centralised credit bureau in Georgia, with which Georgian banks and micro-finance institutions share customer information. Most Georgian banks have shared negative customer credit information with CIG since 2005, and positive customer credit information since 2007. In 2011, Creditinfo Group developed a customer rating system based on the accumulated statistical data. The rating model is being revised on a yearly basis considering the updated statistical data. Starting from 1 September 2018, CIG is regulated and supervised by the NBG, and all loan issuing organisations (including commercial banks, microfinance organisations, non-bank

depositary institutions—credit unions and any persons or groups of related persons before whom more than 20 individuals (including individual entrepreneurs) simultaneously have loan/credit obligations) are required to share data with CIG.

Corporate loans

TBC evaluates corporate banking customers on the basis of several factors, including their business model and development milestones, financial standing, market position and industry, corporate governance and ownership structure, strategy and development plan and credit history. TBC also thoroughly evaluates the loan purposes (including the scope of the project that the loan is intended to finance) and loan repayment sources, as well as the quality of the collateral offered to secure the loan.

Applications for corporate loans are initially submitted to the Corporate Business Department at TBC's head office and are analysed by a credit analyst and a banker specialising in one or more industry segments and thus aware of current industry trends and developments. The analyst is responsible for gathering sufficient information in order to assess the borrower's risk profile, structure the credit and determine the type of credit facility that best meets the applicant's needs. A thorough analysis of each credit application is conducted, including reviewing information relating to the potential borrower, its owners and management, its related parties, its financial statements, the amount and purpose of the loan and the collateral offered, which is appraised by an internal appraiser (or, if the borrower is related to TBC Bank, an independent external appraiser), and on-site visits to assess the customer's business operations. The objective of the analysis is to structure the credit facility and, to the maximum extent possible, limit all critical risks related to the borrower and the financing of the project, and to define the primary and secondary sources for the repayment of the credit. The legal and compliance due diligence conducted by the Issuer's staff may also be requested on an individual basis. To ensure a comprehensive credit analysis process, credit granting criteria and lending guidelines are tailored for individual industries. Guidelines cover all key industries and outline target ratios within each industry, including profitability ratios, debt service capacity, leverage, interest coverage, liquidity and efficiency.

In the event that the credit analyst determines that the potential borrower is eligible for a loan, he or she will prepare a presentation containing certain key information in relation to the potential borrower and loan for the relevant loan approval committee. In order to encourage consistency, TBC implemented a risk analyst system from Moody's, where the financial data of individual borrowers is centrally stored, enabling TBC to analyse a borrower's data more efficiently both from a historical development perspective and a peer companies' analysis perspective. The Issuer's underwriting team is split into specific sectors, ensuring high specialisation of staff. The financial and business package of the borrower is reviewed by an underwriting credit risk manager specialising in the sector in which the borrower operates. An underwriting credit risk manager ensures that the project analysis provided by the credit analyst is complete, all risks and mitigating factors are identified and adequately addressed and the loan is properly structured. A risk report assessing the credit application and recommending a decision is issued for the loan approval committee.

Loan approval committees for corporate loans are classified under tiered approval levels that are subject to specified limits as to the risk level of customers that may be approved for a loan. For corporate, these limits are determined based on a customer's total direct and related liabilities, including liabilities of related borrowers. The approval level for corporate borrowers is determined by the risk level of the customer according to TBC's classification categories. A corporate loan to TBC Bank's top 20 largest borrowers or a loan exceeding 5% of TBC Bank's regulatory capital would require the review and approval of the Risk, Ethics and Compliance Committee (the "**RECC**").

MSME loans

TBC evaluates MSME banking customers on the basis of several factors, including the purpose of the proposed loan, source of repayment, the risk profile of the borrower, the borrower's repayment history, current capacity to repay, terms and conditions of the proposed credit and, where applicable, the quality of the collateral offered to secure the loan.

Underwriting of MSME loans differs according to the size of the loan. Underwriting of small ticket loans is relatively automated, whereas medium ticket MSME loans' underwriting process is similar to that of corporate loans.

Small ticket MSME loans (loans up to GEL 500,000 and borrowers with revenue below GEL 1,500,000) originate in branches or via distant sales channels. A loan officer analyses loan purpose and a borrower's financial statements. Income verification is done either based on data obtained from the Revenue Service, or during a visit to a borrower's business site. In case of secured loans, collateral is appraised by an internal appraiser (or, if the borrower is related to the Issuer, an independent external appraiser). To avoid conflict of interest, appraisers are independent from the loan granting process. An application assessment process for small ticket MSME loans is streamlined, with scorecard models being applied for loans up to GEL 20,000. Decisions on loans are made either based on the scorecard model, or by the centralised micro loans approval committee, except for certain micro loans which are delegated to loan approval committees in originating branches. Approval committees of small ticket MSME loans are classified under various "tiered approval levels" according to the size of the loan and title and function of individual committee members.

Medium ticket MSME applications are submitted in the branches. A loan officer is responsible for gathering and reviewing preliminary information and determining the type of credit facility that best meets the applicant's needs. As in the case of corporate loans, a thorough analysis of each credit application is conducted, including reviewing information relating to the potential borrower, its owners and management, its related parties, its financial statements, the amount and purpose of the loan and the collateral offered, which is appraised by an internal appraiser (or, if the borrower is related to TBC Bank, an independent external appraiser), and on-site visits to assess the customer's business operations. In the event that the loan officer determines that the potential borrower is eligible for a loan, he or she will prepare a presentation containing certain key information in relation to the potential borrower and loan for the review of underwriting credit risk manager. The financial and business package of the borrower is reviewed by an underwriting credit risk manager, specialising in the sector, in which the borrower operates.

As in the case of corporate loans, loan approval committees for medium ticket MSME loans are classified under approval levels that are subject to specified limits as to the risk level of customers that may be approved for a loan. These limits are determined based on a customer's total direct and related liabilities, including liabilities of related parties and the borrower's risk profile.

Loans to related parties

Loans to related parties of TBC Bank (as defined under TBC's internal policies) are processed according to TBC's standard credit policies and with the level of prudence required by local legislation. All MSME and corporate loans to related parties at minimum require an approval of the Chief Risk Officer (the "**CRO**") or the CEO. The Supervisory Board must approve transactions with related parties that result in an exposure (i) to individuals exceeding the lesser of GEL 150,000 and 0.5% of regulatory capital, (ii) to legal entities exceeding the lesser of GEL 200,000 and 1% of regulatory capital, and (iii) exceeding GEL 1,000,000, in the case of liabilities secured with deposits. An approval of the Supervisory Board is also required for transactions with related parties for products or services which would result in an annual total cash outflow from TBC greater than GEL 200,000.

TBC Bank has to comply with the limits set by the NBG for risk exposures to one related party not exceeding 5% of the TBC Bank's regulatory capital and to all related parties not exceeding 25% of the TBC Bank's regulatory capital. TBC Bank monitors the ratios carefully in order to ensure the compliance with prudential regulatory requirements.

Historically, TBC's credit exposure to related parties (as defined under IFRS) has been very small, amounting to 0.1% of TBC's gross credit portfolio as at 31 March 2019, compared with 0.1% as at 31 December 2018, 2017 and 2016. Collateral for loans to related parties is appraised by external independent appraisers and subject to coverage ratios of at least 110%.

Collateral Policies

Collateral represents the most significant credit risk mitigation tool for TBC, making effective collateral management one of the key risk management components. Collateral on loans extended by TBC 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. TBC has a largely collateralised portfolio in all of its segments, with real estate representing a major share of collateral.

TBC's loan portfolio has historically been well-secured. As at 31 March 2019, 89% of TBC's loan portfolio was secured, compared to 89%, 82% and 88% as at 31 December 2018, 2017 and 2016, respectively. The following table sets out certain information relating to the collateralisation of TBC's gross loan portfolio, as at the dates indicated:

	As at 31 March 2019	As at 31 December		
		2018	2017	2016
	(unaudited) (% of gross loans)			
Real estate	67%	66%	65%	65%
Inventory and equipment	9%	10%	5%	5%
Cash deposits	2%	2%	2%	4%
Precious metals	3%	3%	3%	4%
Other assets	2%	2%	1%	2%
Third party guarantees	6%	6%	6%	8%
Total secured loans	**89%**	**89%**	**82%**	**88%**
Unsecured loans	**11%**	**11%**	**18%**	**12%**

As at 31 March 2019, the loan-to-value ratio (calculated as the total loans divided by the value of collateral) on TBC's total loan portfolio was 51%, and 56%, 49% and 47% for the retail, corporate and MSME segments, respectively, and 51% for TBC's mortgage loans.

Unsecured loans include fully unsecured loans and the unsecured portion of partially-secured loans (so-called "under-collateralised assets"). The value of the collateral used to secure loans in TBC's portfolio can vary over time, and in certain cases may be lower than the carrying value of an asset. See "*Risk Factors—Risks Relating to TBC—Collateral values may decline*" and Note 9 to the Audited Consolidated Financial Statements and Note 7 to the Unaudited Consolidated Interim Financial Statements. As at 31 March 2019, GEL 1,675 million (16%) of the total gross loan portfolio was under-collateralised, compared to GEL 1,298 million (13% of total gross loans), GEL 1,784 million (21% of total gross loans) and GEL 1,209 million (16% of total gross loans) as at 31 December 2018, 2017 and 2016, respectively.

A centralised unit for collateral management governs TBC'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 an independent valuation process, a haircut system throughout the underwriting process, collateral monitoring (including revaluations and statistical analysis) 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, applicable NBG regulations and internal policy/ procedures. In specific instances, such as lending to related parties and material transactions, valuations are implemented by external appraisers.

Appraisers or inspectors inspect proposed collateral in order to determine whether it is appropriate. Collateral of significant value is re-evaluated annually by appraisers, while statistical methods are used to monitor the value of collateral of non-significant value. Collateral may require more frequent re-evaluation as a result of changes to the borrower's standing or market fluctuations. In case of repossession, any collateral is also re-evaluated within three months prior to repossession. Requirements relating to the frequency of re-evaluations are determined in accordance with TBC's collateral management procedures manual, which is subject to the approval of the Management Board.

Credit policies outline clear guidelines for collateral registration in order to ensure that collateral is enforceable in a timely manner. As at 31 March 2019, inventories of repossessed collateral held by TBC accounted for GEL 130.7 million (net of provisioning), or 0.9% of TBC's total assets (compared to 0.8%, 0.9% and 0.8% of TBC's total assets as at 31 December 2018, 2017 and 2016, respectively).

Portfolio Monitoring

TBC'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. TBC dedicates considerable resources to gaining a clear and accurate understanding of the credit risk TBC faces across various business segments. TBC uses a monitoring system to timely react 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 and encompassing individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

A complex monitoring system is in place for the monitoring of individual counterparties with monitoring frequency depending on the borrower's risk profile and exposure. Based on the results, borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialised 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. For the corporate and medium ticket MSME borrowers, the "watch" category is used as one of the qualitative indicators for transferring the exposures to stage 2 under IFRS 9.

For retail and small ticket MSME borrowers along with other portfolio level indicators, portfolio breakdown across risk categories is monitored on a regular basis. These borrowers are monitored for timely debt repayment on a daily basis. Statistical techniques are applied for the monitoring of the overall performance of the portfolio, with a deeper analysis performed for specific sub-segments in the event there are signs of performance deterioration. Along with the daily monitoring of debt repayments and a regular detailed analysis of the portfolio's performance, a dedicated unit exists for monitoring of small ticket MSME loans. The monitoring group undertakes site visits to the borrower's business to perform its analysis. This process enables TBC to timely identify any inconsistencies with its lending policy and undertake corresponding actions.

A detailed analysis of the credit portfolio is completed on a monthly basis, which includes total credit portfolio exposure, portfolio quality, vintage analysis, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries. Findings are presented to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio are presented to the RECC on a quarterly basis. By comparing current data with historical figures, and analysing forecasts, Management believes that it is capable of identifying risks and responding to them by amending the Issuer's policies in a timely manner.

Provisioning guidelines

The Issuer estimates loan provisions and allowance for losses according to rules set both by the NBG and IFRS.

Provisioning levels according to NBG standards are defined based on the borrower's financial condition, number of days overdue and collateral coverage of the loan. Under NBG rules, retail loan provisioning is performed collectively, whereas corporate and large ticket MSME loan provisioning levels are assessed individually.

Effective from 1 January 2018, IFRS 9 requires assessment of allowance for ECLs rather than provisioning of incurred losses under IAS 39. The measurement of ECL reflects an unbiased, probability-weighted amount determined by evaluating a range of plausible outcomes, the time value of money and all reasonable and supportable information about past events, current conditions and forecasts of future conditions. Financial instruments that are not already credit-impaired are originated into stage 1 and allowance for 12-month ECL is recognised. Instruments will continue to be classified as such unless there is evidence of significant increases in credit risk since origination, triggering transfer to stage 2 and measurement of ECL on a lifetime basis. Instruments considered to be in default are classified as stage 3 and allowance for lifetime ECL is recognised. In order to compute ECLs, borrowers or a group of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL 4 million or more are regarded as significant.

If there is evidence of credit impairment with respect to a significant credit exposure, the Issuer assesses the borrower on an individual basis and measures the loss provision as the difference between the asset's carrying amount and the present value of estimated future cash flows. TBC estimates future recoveries by applying a scenario analysis and taking into account all relevant information available at the reporting date, including adverse changes in the general macroeconomic environment or the industry the borrower operates in. Performing significant exposures, as well as all non-significant exposures are assessed for impairment on a collective basis. For the collective assessment purpose, exposures are grouped into homogenous risk pools based on similar credit risk characteristics, including but not limited to, the type of counterparty, product type, credit rating, delinquency, restructuring status or any other characteristics that may reasonably differentiate risk levels of distinct portfolios. Collectively estimated ECLs is the sum of the multiplications of the credit risk parameters discounted to the measurement date.

TBC will reverse a previously recognised impairment loss if, after the impairment was recognised, 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 borrower's financial standing has improved or there is an improvement in collateral coverage. For collectively assessed loans, the defaulted exposure should survive the quarantine period to be transferred back to a performing loans pool.

Analysis of loan portfolio in accordance with IFRS

The tables below set out information on changes in TBC's loan loss reserves for the periods indicated.

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
			(unaudited) (GEL thousands)		
Credit loss allowance as of 31 December 2018	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**
Re-segmentation effect	767	—	—	(767)	**—**
Credit loss allowance during the period	(428)	27,860	(501)	9,485	**36,416**
Amounts written off during the period as uncollectible	—	(32,992)	(629)	(7,367)	**(40,988)**
Recoveries	500	3,448	677	3,302	**7,927**
Effect of translation to presentation currency	29	11	30	39	**109**
Credit Loss allowance as of 31 March 2019	**82,373**	**155,050**	**24,465**	**75,706**	**337,594**

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
			(audited) (GEL thousands)		
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**
Re-segmentation 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**

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
			(audited) (GEL thousands)		
Provision for loan impairment as of 31 December 2016	**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**

	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
			(audited) (GEL thousands)		
Provision for loan impairment as of 31 December 2015	**108,050**	**42,433**	**13,135**	**30,525**	**194,143**
Re-segmentation 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**

Credit loss allowance for loan impairment amounted to GEL 36.4 million for the three months ended 31 March 2019 (compared to GEL 28.0 million for the three months ended 31 March 2018). The increase was mainly attributable to a low credit loss allowance in Q1 2018 as a result of appreciation of the Lari.

Credit loss allowance for loan impairment increased by GEL 49.9 million to GEL 143.7 million for the year ended 31 December 2018 from GEL 93.8 million in 2017. The increase was mainly attributable to the corporate segment following a high recovery of credit loss in 2017.

Provision charges for loan impairment increased by GEL 44.6 million to GEL 93.8 million for the year ended 31 December 2017 from GEL 49.2 million in 2016. The increase was mainly driven by low provision charges in 2016 partially attributable to high recovery of provision charges in corporate segment.

Non-performing and Restructured Loans and overdue finance leases

Non-performing loans are loans in respect of which any portion of principal or interest is overdue by more than 90 days or underlying well-defined weaknesses is present for the loan regardless of the existence of any past-due amount or of the number of days past due Non-performing Loans.

The following table gives information about TBC's Non-performing Loans calculated as a percentage of gross loan portfolio:

	As at 31 March 2019	As at 31 December 2018	2017	2016
		(unaudited) (GEL thousands, except percentages)		
Non-performing Loans	337,289	325,500	278,437	254,599
As a percentage of gross loan portfolio	3.3%	3.1%	3.3%	3.5%

The NBG classifies "non-performing loans" as all loans subject to provisioning levels of 30% or more (pursuant to the NBG provisioning guidelines), which may be broader than TBC's internal definition of the Non-performing Loans.

The following table gives information about Non-performing Loans per NBG calculated as a percentage of gross loan portfolios per NBG:

	As at 31 March 2019	As at 31 December 2018	2017	2016
	(unaudited) (GEL thousands, except percentages)			
Non-performing Loans per NBG	398,813	369,890	274,399	255,238
As a percentage of gross loan portfolio per NBG	3.9%	3.6%	3.2%	4.3%

TBC restructures loans when the customer is experiencing or may be facing, difficulties with loan repayment ("**Restructured Loans**"). Loans are only restructured if sufficient proof is provided that the customer will be able to repay the loan following the restructuring and that such restructuring is being made for good cause. Loans are restructured by altering the loan maturity or repayment schedule. The ratio of Restructured Loans to total gross loans was 3.0%, 3.0%, 3.3% and 4.3% as of 31 March 2019, 31 December 2018, 2017 and 2016, respectively. Restructured Loans are at minimum assigned a "watch" status and monitored accordingly. Portion of the restructured loans which are considered as a high risk is categorised as Non-performing Loans.

TBC also holds interest-earning finance leases (before provisions for impairment) totalling GEL 211.8 million as at 31 March 2019 (representing 1.4% of the TBC's total assets). As at the same date, GEL 7 million (3.3%) of those finance leases were 90 DPD loans.

Restructuring and collections

TBC uses a comprehensive portfolio supervision system to identify weakened credit exposures in a timely manner 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 medium ticket MSME borrowers are transferred to the restructuring units when there is deterioration in the borrower's financial standing, jeopardising the repayment of the credit. However, the main source of the repayment remains the borrower's cash flow. The transfer can be triggered by a business recommendation, an underwriting risk manager reference or monitoring results. A restructuring manager assesses a customer relationship strategy and defines the turnaround plan, which considers the specifics of the circumstances and may involve a restructuring of the exposure, a decrease in the borrower's leverage (by spinning off part of the borrower's assets), raising equity, the sale of the exposures to the third parties, taking control of the borrowers' cash flows and limiting management's business decisions.

Corporate and medium ticket MSME 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 consider all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees. TBC's goal in the recovery process is to negotiate with the borrower a loan recovery strategy and secure cash recoveries to the extent possible or negotiate repayment through the sale or repossession of collateral.

Collection functions for retail and small ticket MSME loans support customers who are experiencing difficulties in fulfilling their obligations. Such customers may miss payments, or notify TBC about their difficulty with loan repayments. A centralised team monitors 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 groups of customers, reflecting their respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.

Retail and small ticket MSME loans are generally transferred to the recovery unit at 60 - 90 days past due. Collateralised loans are transferred to the internal recovery unit, whereas TBC collaborates with the 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, TBC typically initiates 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.

Write-Off Policy

Loans are written off if it is evident that a loss has been sustained and no amounts will be collected in the near future. Unsecured loans are generally written off at 180 days past due, whereas while making decision to write off secured exposure apart from the overdue days, TBC also takes into consideration the recoverability of the collateral. Significant loans may be written off following an assessment by the respective portfolio risk management team considering the recovery outlooks of individual cases, which in its turn is closely discussed with legal and recovery staff.

For the three months ended 31 March 2019, the net amount of loans written off by TBC (total write-offs minus recovery) was GEL 33.1 million (representing 0.3% of loans and advances to customers as at that date), compared to GEL 22.7 million for the three months ended 31 March 2018 (representing 0.3% of loans and advances to customers as at that date).

For the year ended 31 December 2018, the net amount of loans written off by TBC was GEL 101.3 million (representing 1.0% of loans and advances to customers as at that date), compared to GEL 91.4 million for the year ended 31 December 2017 (representing 1.1% of loans and advances to customers as at that date) and GEL 18.0 million for the year ended 31 December 2016 (representing 0.3% of loans and advances to customers as at that date).

RISK MANAGEMENT

General

TBC operates a strong and independent, business-minded risk management system. The main objectives of TBC's risk management system are to contribute to the sustainability of risk-adjusted returns through the implementation of an efficient risk management system. TBC has adopted four primary risk management principles to 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 trust of various stakeholders. Communicating risk goals and strategic priorities to governing bodies and providing a comprehensive follow-up in an accountable manner are key priorities for staff responsible for risk management.
- **Manage risks prudently to promote sustainable growth and resilience.** Risk management acts as a backstop against excessive risk-taking. Capital adequacy management and strong forward-looking tools and decision-making ensure TBC's sustainability and resilience.
- **Ensure that risk management underpins the implementation of TBC's 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-mitigating 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 TBC's competitive advantage and strategic enabler.

TBC's risk management framework incorporates all the necessary components for comprehensive risk governance and is comprised of enterprise risk management ("**ERM**"), 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.

Risk Governance Structure

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

Both the Supervisory Board and the Management Board have dedicated risk committees. The Supervisory Board has the RECC that supervises the risk profile and risk governance practice within TBC, 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 bank-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 (the "**ALCO**") is responsible for the implementation of asset-liability management policies.

The Supervisory Board and senior management of TBC Bank govern risk objectives through the Risk Appetite Statement (the "**RAS**"), which establishes the desired risk profile and risk limits for different economic environments. The RAS 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. In order to effectively incorporate TBC's risk appetite into day-to-day operations, RAS metrics are cascaded into more granular limits at the business unit level, establishing risk allocation across different segments and activities. The process of setting and cascading the risk appetite is undertaken in parallel with the business planning process. The interactive development of business and risk plans aligns the plans by solving risk-return trade-offs in the process and increases the feasibility of achieving targets.

Supervisory Board oversight, coupled with the permanent involvement of senior management in TBC'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 assume the function of the second line of defence. This is performed through sanctioning transactions as well as using 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 TBC makes informed decisions that are adequately priced and that any risks exceeding TBC's established targets are not taken. Credit, liquidity, market, operational and other non-financial risks are each managed by dedicated teams.

TBC'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 CRO, the Compliance Department reports directly to the CEO and is specifically in charge of AML 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 TBC to promote the further improvement of operations and risk management.

Sound risk reporting systems and IT infrastructure are important tools for the efficient risk management of TBC. Thus, significant emphasis and investments are made by TBC to constantly drive the development of required software solutions. A comprehensive reporting framework is in place that enables intense oversight over risk developments and taking early remedial actions upon necessity.

Beyond the risk governance components described below, the compensation system comprises one of the most significant tools for introducing incentives for staff that are aligned with TBC's long term interests to generate sustainable risk-adjusted returns. Risk KPIs are incorporated into both business line and risk staff remunerations. The performance management framework differentiates risk staff incentives in order to safeguard independence from business areas that the risk staff supervises, while enabling the attraction and maintenance of qualified professionals. For that purpose, TBC overweighs risk KPIs for risk and control staff and caps the share of variable remuneration.

Detailed descriptions of various functions involved in risk management are provided below.

Enterprise Risk Management Department

The centralised 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 key ERM functions are as follows:

- Risk appetite development, cascading and monitoring as 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 which is a continuous process within TBC Bank to ensure adequate calculation of unexpected losses and prompt respective mitigation. Various scenario analysis and stress testing is performed by TBC Bank to ensure that TBC Bank holds adequate capital to withstand the stress scenario and stay solvent.
- Long term capital planning and continuous work on the capital optimisation and analytics. Consistency of risk management practices within TBC Bank. A risk management function dedicated to promoting consistency ensures that the risks are identified, measured and governed in an optimal manner within TBC Bank, and reported and understood on a consolidated basis.

- Generating an adequate return on risk which 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 TBC Bank takes adequately priced risks.
- Expected losses estimation, monitoring and analytics across various segments and products.
- Aggregation and analysis of all risk metrics to assess risk profile of the Issuer on a consolidated basis. Regular reports on TBC Bank's risk profile are submitted to the Management board and Supervisory Board's risk committee.

Financial Risk Management Department

The Financial Risk Management Department is involved in the management of financial risks arising from TBC's day-to-day banking activities, including liquidity risk, interest rate risk, foreign currency risk and counterparty credit risk arising from treasury and trade finance operations. It prepares various reports and analyses to assist the Management Board. The Financial Risk Management Department monitors compliance with limits set by the Management Board, regulators and IFIs, forecasts liquidity and other ratios and covenants, provides stress testing and analyses hypothetical scenarios. Day to day risk management of financial risks is performed by Treasury Department, which is subordinated to the CFO.

Retail and Micro (small ticket MSME loans) Credit Risk Management Department

The Retail and Micro Credit Risk Management Department reports to the CRO and is responsible for management of retail and micro loan books' credit risk, ensuring that actual risks are within predefined limits. With dedicated teams in place, functions of the department include loan underwriting, portfolio risk management, model development and early collection of overdue loans.

- **Underwriting units** are involved in the application approval process as members of corresponding loan approval committees. Underwriting risk managers review loan presentations on credit exposures ensuring that the analysis is complete, comprehensive information is gathered to assess the borrower's risk profile, all relevant risks are identified and adequately addressed and the loan is properly structured. For more details on retail and small ticket MSME loans underwriting see "*Lending policies and procedures—Lending Policies*".
- **Portfolio risk management unit** prepares policies and procedures for efficient credit risk management. The unit is responsible for the timely identification and assessment of credit risks and for outlining mitigation actions regarding those risks that should be reduced. On a regular basis, the unit reviews and analyses portfolio dynamics, analyses underwriting standards and outlines recommendations for changes as required.
- **Modelling unit** develops models, which are ultimately used in underwriting, portfolio management and collection processes. Developed models include application, behavioural scorecards and collection models. Models differ based on products and customer segments.
- **Collection unit** is in charge of overdue loans monitoring until loans are transferred to recovery units or external collection agencies. The unit develops tools and strategies so that rolls to recovery stage are minimised.

Corporate and SME Credit Risk Management Department

The Corporate and SME credit risk management department reports to the CRO. Functions of the department include loan underwriting and portfolio risk management.

- **Underwriting units** are responsible for the corporate and SME application approval process as members of multi-tier loan approval committee (five approval tiers are in place) considering the borrower's overall indebtedness and risk profile. Risk managers review loan presentations on credit exposures prepared by the loan officers and credit analysts aiming to assess the borrower's risk profile and ensure that (i) the analysis is fully complete, (ii) the comprehensive information is gathered regarding business model, industry analysis, covenants, legal aspects, purpose of credit facility, collateral, compliance with TBC's credit policies, source and debt service capacity, industry developments, owners and management profile, impact of the transaction on the TBC's portfolio, including risk concentration limits and market overview, (iii) all relevant financial and non-financial risks are identified and (iv) the loan is properly structured. The team also oversees the monitoring

process of individual transactions in order to discover in a timely manner any deterioration in a borrower's repayment capability and undertake corresponding measures.

- **Portfolio risk management unit** is responsible for the management of the corporate and SME credit portfolio risks through (i) constant monitoring of several pre-defined risk parameters and outlining recommendations and mitigation actions for managing portfolio risks more efficiently (ii) ensuring the correspondence of actual risks to internal and regulatory limits (iii) preparing policies, procedures and defining underwriting standards for efficient credit risk management. The team regularly conducts stress testing on corporate and SME portfolios in order to assess credit risk parameters under various scenarios and make corresponding conclusions.

Environmental and Social Risk Management Group

The Environmental and Social Risk Management Group is responsible for managing and implementing the Environmental and Social Management System (the "**ESMS**") based on the following four pillars: (i) internal environmental performance aiming to reduce direct environmental impacts of the Issuer's own operations, ensuring the compliance with environmental and social legal requirements, awareness raising trainings among staff, (ii) managing environmental and social risk of lending, including sector specific guidance notes depending on business activities, (iii) sustainable finance and (iv) external communication with IFIs implementing agreed actions provided after follow-up visits. The team is involved in the preparation of (i) Annual Social and Environmental Performance Reports for IFIs and (ii) Annual GHG Emissions Reports.

Operational Risk Management Department

The Operational Risk Management Department implements a framework for identifying, assessing, measuring and reporting operational risks. The team enables TBC to identify and assess operational risk categories within TBC's processes and operations, to detect critical risk areas or groups of operations with an increased risk level; to develop response actions and impose restrictions in critical risk zones to neutralise identified risk. The Operational Risk Management Department reports to the CRO and ensures that operational risk is within TBC's risk appetite.

Compliance Department

The Compliance Department is focused on improving the entire compliance system. It is responsible for coordinating the identification, assessment and documentation of compliance risks associated with TBC's activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships or material changes in the nature of such relationships and other related measures. The Compliance Department is authorised to plan and administer TBC's overall compliance systems, perform compliance-related direction and supervision and instruct on corrective action and other measures to branches, offices, divisions, headquarters, subsidiaries and affiliates, both in and out of Georgia, upon the occurrence of violations of compliance, all in an integrated fashion.

AML is one of the Compliance Department's main functions, established according to the Georgian legislation and recommendations of competent international organisations. TBC is committed to high standards of AML and requires Management and employees to adhere to these standards in order to prevent the use of TBC's products and services for money laundering purposes. Adherence to this policy is mandatory for all TBC group companies and for all employees. TBC has developed an AML policy and internal control procedures aimed at preventing money laundering and terrorist financing of individuals and legal entities engaged in terrorist activities, as well as procedures for the identification of customers and their beneficial owners, for the risk-based assessment of correspondent banks, clients and connected parties, for carrying out employee compliance trainings and for transaction monitoring and reporting suspicious, unusual and above threshold transactions to the FMS of Georgia, a public entity that acts as Georgia's Financial Intelligence Unit. These compliance procedures aim to, amongst other things, minimise the risk of TBC being used as a vehicle for money laundering and terrorist financing, protect TBC from the reputational risks of being associated with money laundering or terrorist financing activities and ensure that banking services are provided only to clients that are honest and have a good reputation.

Internal Audit Department

The Internal Audit Department is responsible for the audit of TBC's risk management processes. This audit includes in its scope the following aspects of management: the organisation and mandates of the risk management function, including all types of risk thereunder; the compliance of procedures and decisions taken pursuant to the risk management function with predefined policies and procedures, the adequacy of risk management systems and processes for identifying, measuring, assessing, controlling, responding to, and reporting on all the risks resulting from TBC's activities; the integrity of risk management information systems, including the accuracy, reliability and completeness of the data used; and the approval and maintenance of risk models, including verification of the consistency, timeliness, independence and reliability of data sources used in such models. The Internal Audit Department discusses the results of all assessments with management and reports its findings and recommendations to the Supervisory Board.

Legal Department

The Legal Department is in charge of advising TBC on all legal matters involving the Issuer. The Legal Department provides legal representation to the Issuer and to TBC employees, provides advice on regulatory and other legal matters affecting the Issuer and its operations, performs legal research and drafts legal documents for the benefit of the company, fulfils all other duties of in-house legal counsel. The Legal Department consists of four divisions: the Litigation Division, Legal Support Division, Division of Legal Assistance to Corporate Banking, and Division of Corporate Governance and Capital Markets. The Litigation Division provides court and/or arbitration representation to the Issuer and mainly focuses on debt recovery proceedings. The Legal Support Division advises on all structural units and branches of the Issuer on various legal matters and areas of law, including contracts, transactional work, lending, new regulations, and legal compliance. The Division of Legal Assistance to Corporate Banking is in charge of transactions of large corporate clients and borrowers of the Issuer, provides legal advice on the process of lending and servicing the corporate clients. The Division of Corporate Governance and Capital Markets is in charge of corporate governance matters, provides legal assistance to the Management Board and acts as legal counsel in all capital markets transactions.

For the management of each significant risk, TBC puts in place policies and procedures, governance tools and techniques and methodologies for risk identification, assessment and quantification, with brief descriptions provided below.

Credit Risk Management

TBC 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 TBC since it is engaged mainly in traditional lending activities with a simple balance sheet. TBC dedicates significant resources to its management.

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

TBC adopts segment- and product-specific approaches for prudent and efficient credit risk management. 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 small ticket MSME and retail borrowers are managed on a portfolio basis.

TBC's portfolio is structurally well diversified across customer types, product types and industry segments, thus minimizing the credit risk. As at March 2019, the retail segment represented 44.2% of the total portfolio which was split between mortgages and non-mortgage, 58.9% and 41.1%, respectively. In business banking, no single industry represented more than 8.0% of the portfolio as at March 2019.

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 TBC'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.

Credit approval

TBC 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. 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. 'See "*Lending policies and procedures—Lending Policies*".

A centralised unit for collateral management governs TBC'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. See "*Lending Policies and Procedures—Collateral Policies*".

Currency-induced credit risk

TBC 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 TBC 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. TBC applies more conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies. In addition to the measures in place throughout the underwriting process, TBC 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, TBC has tools in place to accelerate its monitoring efforts, identify customers with potential weaknesses and introduce prompt mitigation. See "*Lending policies and procedures—Portfolio Monitoring*".

Credit concentration risk

TBC 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 manage these risks efficiently. TBC sets 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, TBC imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on a 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 negative developments emerge.

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

Funding and Liquidity Risk Management

According to the Basel Committee's definition, liquidity risk is the risk that TBC 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. Both funding and market liquidity risks can emerge from a number of factors that are beyond TBC'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 funding necessary to make payments in respect of TBC's future indebtedness.

Liquidity risk is managed by the Financial Risk Management and Treasury and Financial Services Departments and is monitored by the RECC or ALCO within their predefined functions.

The principal objectives of TBC'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's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising TBC's risk profile.

The Management Board reviews the Liquidity Risk Management Policy, which is then presented to 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 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 under both normal conditions and during a crisis. To manage funding liquidity risk, TBC has an internally developed model using an LCR and an NSFR, both under Basel III liquidity guidelines.

Additionally, TBC 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 Issuer 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 available stable funding by 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 Issuer to rely on more stable sources of funding on a continuing basis. The NBG plans to introduce NSFR from September 2019.

TBC Bank's liquidity prudential ratios were well above the prudential limit set by the NBG as follows:

		At 31 December		
	31 March 2019	**2018**	**2017**	**2016**
	(unaudited)			
Average Liquidity Ratio	35.9%	33.3%	32.5%	30.8%
Total Liquidity Coverage Ratio	117.5%	113.9%	112.7%	N/A
GEL Liquidity Coverage Ratio	111.9%	102.5%	95.6%	N/A
FX Liquidity Coverage Ratio	122.2%	121.1%	122.9%	N/A

Management believes that a strong and diversified funding structure is one of TBC's differentiators. TBC relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance liability structure, TBC sets the targets for retail deposits in the strategy and sets the net loan to deposit ratio limits. TBC's net loan to deposit ratio (defined as total value of net loans divided by total value of deposits) was 107.9%, 106.3%, 106.3% and 110.4%, as at 31 March 2019 and 31 December 2018, 2017 and 2016, respectively.

Market liquidity risk is the risk that TBC 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, TBC follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that TBC 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 has a liquidity contingency plan, updated annually, which forms part of TBC'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.

Maturity analysis

TBC's principal sources of liquidity include deposits and customer accounts; borrowings from local and international banks and financial institutions; subordinated loans from the IFI Investors; inter-bank term deposits and short-term loans; proceeds from sales of investment securities; principal repayments on loans; interest income; and fee and commission income. See "*Selected Statistical and Other Information—Funding Sources*".

Each table below summarises the maturity analysis of TBC's financial assets and liabilities, by remaining expected discounted maturities, as at the dates indicated.

As of 31 March 2019 the analysis by expected maturities was as follows:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
			(unaudited) (GEL thousands)		
Assets					
Cash and cash equivalents	921,918	—	—	—	**921,918**
Due from other banks	18,337	—	3,775	—	**22,112**
Mandatory cash balances with National Bank of Georgia	1,416,082	—	—	—	**1,416,082**
Loans and advances to customers	1,134,723	1,870,461	4,161,951	2,862,185	**10,029,320**
Investment securities measured at fair value through other comprehensive income	836,482	—	—	—	**836,482**
Bonds carries at amortised cost	13,382	150,219	392,281	68,139	**624,021**
Repurchase receivables	44,720	45,048	—	—	**89,768**
Investments in finance leases	34,672	55,011	113,833	4,727	**208,243**
Other financial assets	108,411	1,813	4	—	**110,228**
Total financial assets	**4,528,727**	**2,122,552**	**4,671,844**	**2,935,051**	**14,258,174**
Liabilities					
Due to credit institutions	485,888	351,322	1,672,421	182,954	2,692,585
Customer accounts	949,708	118,832	—	8,225,916	9,294,456
Debt securities in issue	5,547	7,868	—	—	13,415
Other financial liabilities	148,600	589	1,409	—	150,598
Subordinated debt	26,782	9,512	183,955	444,081	664,330
Total financial liabilities	**1,616,525**	**488,123**	**1,857,785**	**8,852,951**	**12,815,384**
Credit related commitments and performance guarantees	115,710	—	—	—	115,710
Net liquidity gap as of 31 March 2019	2,796,492	1,634,429	2,814,059	(5,917,900)	1,327,080
Cumulative gap as of 31 March 2019	**2,796,492**	**4,430,921**	**7,244,980**	**1,327,080**	

As of 31 December 2018 the analysis by expected maturities was as follows:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
			(audited) (GEL thousands)		
Assets					
Cash and cash equivalents	1,164,403	—	—	—	**1,164,403**
Due from other banks	25,471	8,075	3,838	—	**37,384**
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 measured at fair value through other comprehensive income	1,005,239	—	—	—	**1,005,239**
Bonds carries at amortised cost	118,989	92,877	368,843	72,994	**653,703**
Investments in finance leases	31,134	56,432	113,087	3,149	**203,802**
Other financial assets	132,270	20,325	1,664	—	**154,259**
Total financial assets	**4,990,836**	**2,233,858**	**4,639,868**	**2,815,489**	**14,680,051**
Liabilities					
Due to credit institutions	933,513	271,993	1,653,575	172,424	**3,031,505**
Customer accounts	1,007,472	129,666	—	8,307,608	**9,444,746**
Debt securities in issue	112	13,231	—	—	**13,343**
Other financial liabilities	72,399	5,806	—	—	**78,205**
Subordinated debt	3,049	23,245	182,986	441,639	**650,919**
Total financial liabilities	**2,016,545**	**443,941**	**1,836,561**	**8,921,671**	**13,218,718**
Credit related commitments and performance guarantees	112,846	—	—	—	112,846
Net liquidity gap as of 31 December 2018	2,861,445	1,789,917	2,803,307	(6,106,182)	1,348,487
Cumulative gap as of 31 December 2018	**2,861,445**	**4,651,362**	**7,454,669**	**1,348,487**	

As of 31 December 2017 the analysis by expected maturities was as follows:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
			(audited) (GEL thousands)		
Assets					
Cash and cash equivalents	1,428,771	—	—	—	**1,428,771**
Due from other banks	32,541	1,521	3,727	—	**37,789**
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**
Investments in finance leases	22,896	38,526	82,414	—	**143,836**
Other financial assets	104,537	16,265	13,333	—	**134,135**
Total financial assets	**4,393,968**	**1,930,065**	**3,753,831**	**2,133,314**	**12,211,178**
Liabilities					
Due to credit institutions	1,137,076	351,381	1,014,480	141,777	**2,644,714**
Customer accounts	846,121	137,146	—	6,852,056	**7,835,323**
Debt securities in issue	47	7,778	12,870	—	**20,695**
Other financial liabilities	75,081	4,433	260	—	**79,774**
Subordinated debt	3,471	49,694	97,372	276,251	**426,788**
Total financial liabilities	**2,061,796**	**550,432**	**1,124,982**	**7,270,084**	**11,007,294**
Credit related commitments and performance guarantees	115,574	—	—	—	115,574
Net liquidity gap as of 31 December 2017	2,216,598	1,379,633	2,628,849	(5,136,770)	1,088,310
Cumulative gap as of 31 December 2017	**2,216,598**	**3,596,231**	**6,225,080**	**1,088,310**	

As of 31 December 2016 the analysis by expected maturities was as follows:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
			(audited) (GEL thousands)		
Assets					
Cash and cash equivalents	944,767	—	—	—	**944,767**
Due from other banks	4,416	4,312	5,541	9,555	**23,824**
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	63,484	8,709	19,702	—	**91,895**
Total financial assets	**3,695,673**	**1,618,966**	**3,148,332**	**1,620,549**	**10,083,520**
Liabilities					
Due to credit institutions	796,547	260,046	988,857	154,526	**2,199,976**
Customer accounts	724,083	154,672	—	5,582,827	**6,461,582**
Debt securities in issue	145	5,277	18,086	—	**23,508**
Other financial liabilities	46,464	2,545	1,144	—	**50,153**
Subordinated debt	3,333	4,893	125,174	234,981	**368,381**
Total financial liabilities	**1,570,572**	**427,433**	**1,133,261**	**5,972,334**	**9,103,600**
Credit related commitments and performance guarantees	56,538	—	—	—	56,538
Net liquidity gap as of 31 December 2016	2,068,563	1,191,533	2,015,071	(4,351,785)	923,382
Cumulative gap as of 31 December 2016	**2,068,563**	**3,260,096**	**5,275,167**	**923,382**	

The above analyses are based on expected maturities. Investment securities available for sale includes investment securities which TBC intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity, changes in interest rates, exchange rates or equity prices. These securities can be sold on the secondary market at any time or be pledged as collateral for the purposes of obtaining loans from the NBG/Ministry of Finance (where the loan equals 95% of the nominal amount of the pledged securities) or from other banks within NBG regulations and based on Management's assessment of the portfolio.

Management believes that TBC has sufficient liquidity to meet its current on- and off-balance sheet obligations.

For further information on management of liquidity risk, see Note 35 to the Audited Consolidated Financial Statements and Note 22 to the Unaudited Consolidated Interim Financial Statements.

Market Risk

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

Foreign exchange risk

TBC is exposed to currency risk that 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 TBC to monitor both balance-sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the total aggregate balance within 20% of TBC's regulatory capital. As at 31 March 2019, TBC

maintained a positive balance open currency position of 1.2% of regulatory capital and an aggregate short balance open currency position of 0.4%.

In addition, the Supervisory Board sets further limits on open currency positions. The Management Board has set limits on the level of exposure by currency and in total for both overnight and intra-day positions which are more conservative than those set by the NBG and the Supervisory Board. TBC's compliance with these limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments and reported daily to the Management Board and periodically to the Supervisory Board.

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. TBC developed methodology for allocating capital charges for FX risk following Basel guidelines.

In August 2018, the NBG introduced new a regulation amending the method for calculation of open currency positions. According to this regulation, from March 2019, special reserves assigned to FX balance-sheet assets would be deducted gradually for open currency position calculation purposes and fully implemented by September 2020 in line with the transition period defined by the NBG.

The following table sets out certain information in respect of TBC's open currency positions, as at the dates indicated, where the total aggregate open position is calculated as the maximum absolute values of the outstanding aggregate long and short positions maintained in all foreign currencies on a standalone basis, according to NBG reporting standards:

	As at 31 March 2019	As at 31 December 2018	2017	2016
		(unaudited)		
Total aggregate open position (*GEL thousands*)	10,001	179,381	28,802	45,689
As a percentage of total capital (%)	0.41%	7.63%	1.53%	3.21%
Total aggregate open position (*U.S.$ thousands*)	509	66,452	10,661	17,020
As a percentage of total capital (%)	0.06%	7.56%	1.47%	3.17%
Total aggregate open position (*EUR thousands*)	2,855	−725	−4,707	−6,695
As a percentage of total capital (%)	0.36%	0.09%	0.77%	1.32%

Each table below sets out the Lari-equivalent of TBC's financial assets and liabilities denominated in different currencies, as at the dates indicated, calculated in accordance with IFRS.

	As of 31 March 2019			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(unaudited) (GEL thousands)			
Georgian Lari	5,864,308	4,426,642	(15,623)	**1,422,043**
U.S. dollars	6,800,692	7,431,451	652,754	**21,995**
Euros	1,505,645	871,748	(630,362)	**3,535**
Other	87,529	85,511	(1,543)	**475**
Total	**14,258,174**	**12,815,352**	**5,226**	**1,448,048**

	As of 31 December 2018			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(audited) (GEL thousands)			
Georgian Lari	5,915,034	4,751,326	86,122	**1,249,830**
U.S. dollars	7,289,483	7,431,595	323,246	**181,134**
Euros	1,374,805	948,620	(409,565)	**16,620**
Other	100,729	87,165	(463)	**13,101**
Total	**14,680,051**	**13,218,706**	**(660)**	**1,460,685**

	As of 31 December 2017			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(audited) (GEL thousands)			
Georgian Lari	4,812,558	3,809,208	164,521	1,167,871
U.S. dollars	6,460,892	6,288,939	(153,449)	18,504
Euros	816,277	805,172	(9,315)	1,790
Other	121,432	103,975	(899)	16,558
Total	**12,211,159**	**11,007,294**	**858**	**1,204,723**

	As of 31 December 2016			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
	(audited) (GEL thousands)			
Georgian Lari	3,483,389	2,485,281	9,394	1,007,502
U.S. dollars	5,819,504	5,850,217	(8,905)	(39,618)
Euros	690,667	697,520	(13)	(6,866)
Other	89,960	70,582	(288)	19,090
Total	**10,083,520**	**9,103,600**	**188**	**980,108**

As at 31 March 2019, if the U.S.$/GEL exchange rate changed by +/− 10%, TBC's profit for the year would have been GEL 2.2 million higher or lower, respectively (compared to GEL 18.1 million higher or lower as at 31 December 2018, GEL 1.9 million higher or lower as at 31 December 2017 and GEL 4.0 million lower or higher as at 31 December 2016). As at 31 March 2019, if the EUR/GEL exchange rate changed by +/− 10%, TBC's profit for the year would have been GEL 0.4 million higher or lower, respectively (compared to GEL 1.7 million higher or lower as at 31 December 2018, GEL 0.2 million higher or lower as at 31 December 2017 and GEL 0.7 million lower or higher as at 31 December 2016).

Interest rate risk

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of TBC's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities. The deposits and approximately half of the loans offered by TBC are at fixed interest rates, while a portion of TBC's borrowings is based on a floating rate of interest. TBC's floating rate borrowings are, to a certain extent, hedged as a result of the NBG paying a floating rate of interest on the minimum reserves that TBC holds with the NBG. Furthermore, many of TBC's loans to and deposits from customers contain a clause allowing TBC to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting TBC's exposure to interest rate risk. Management also believes that TBC's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

Each table below summarises TBC's exposure to interest rate risks and presents the aggregated amounts of TBC's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates, as at the dates indicated. Currency and interest rate swaps are not netted when assessing TBC'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 the NBG and interest-bearing nostro accounts. Income on NBG reserves and nostro

accounts are calculated as a benchmark minus margin, whereby the benchmark rate is the US federal funds rate and the European Central Bank rate in case of the U.S. dollar and Euro, respectively.

	As at 31 March 2019				
	Less than 1 month	1 - 6 months	6 - 12 months	Over 1 year	Total
			(unaudited) (GEL thousands)		
Total financial assets	5,065,438	3,282,068	1,004,809	4,906,766	14,259,081
Total financial liabilities	4,577,360	2,956,832	912,288	4,369,845	12,816,325
Net interest sensitivity gap at 31 March 2019	**488,078**	**325,236**	**92,521**	**536,921**	**1,442,756**

	As at 31 December 2018				
	Less than 1 month	1 - 6 months	6 - 12 months	Over 1 year	Total
			(audited) (GEL thousands)		
Total financial assets	4,776,646	3,596,006	1,009,348	5,298,973	14,680,973
Total financial liabilities	4,565,789	3,327,654	1,026,112	4,300,095	13,219,650
Net interest sensitivity gap at 31 December 2018	**210,857**	**268,352**	**(16,764)**	**998,878**	**1,461,323**

	As at 31 December 2017				
	Less than 1 month	1 - 6 months	6 - 12 months	Over 1 year	Total
			(audited) (GEL thousands)		
Total financial assets	3,419,809	2,440,185	1,065,644	5,306,276	12,231,914
Total financial liabilities	4,098,666	2,628,473	1,046,629	3,254,239	11,028,007
Net interest sensitivity gap at 31 December 2017	**(678,857)**	**(188,288)**	**19,015**	**2,052,037**	**1,203,907**

	As at 31 December 2016				
	Less than 1 month	1 - 6 months	6 - 12 months	Over 1 year	Total
			(audited) (GEL thousands)		
Total financial assets	2,707,541	1,796,745	1,011,420	4,606,985	10,122,691
Total financial liabilities	3,603,901	2,011,224	1,024,058	2,503,590	9,142,773
Net interest sensitivity gap at 31 December 2016	**(896,360)**	**(214,479)**	**(12,638)**	**2,103,395**	**979,918**

As at 31 March 2019, if interest rates at that date had been 100 basis points higher or lower, with all other variables held constant, TBC's profit for the year would have been GEL 7.3 million higher or GEL 7.3 million lower, respectively (compared to GEL 4.4 million higher or GEL 4.4 million lower as at 31 December 2018, GEL 7.6 million lower or GEL 7.6 million higher at 31 December 2017 and GEL 9.5 million lower or GEL 9.5 million higher at 31 December 2016).

TBC employs an advanced framework for the management of interest rate risk. In order to manage interest rate risk TBC establishes appropriate limits, monitors compliance with the limits and prepares forecasts. Interest rate risk is managed by the Financial Risk Management Department and is monitored by the Management Board. The Management Board decides on actions that are necessary for effective interest rate risk management and follows up on their implementation.

TBC measures four types of interest rate risk based on the source of the risk: (i) repricing risk; (ii) yield curve risk; (iii) basis risk; and (iv) optionality (embedded option risk).

TBC considers a number of stress scenarios, including different yield curve shift scenarios 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.

TBC reserves capital in the amount of the adverse effect of possible yield curve parallel shift scenarios on net interest income over a one-year period to ensure compliance with the predefined risk appetite of TBC. As at 31 December 2018 the impact of the downward parallel shift of a yield curve of 366 basis points in GEL and a downward parallel shift of 200 basis points in USD on net interest income over a one-year period was GEL 58.2 million equivalent.

Operational Risk Management

In line with the Basel Committee's guidelines, TBC defines operational risk as the risk of loss resulting from an inadequacy or failure of internal processes, people or systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

TBC's operational risk management framework defines the roles and responsibilities of different parties for management of operational risk. The main components of this framework are the identification, assessment, measurement and reporting of operational risk, as a result of which these risks are managed, mitigated or transferred.

The Management Board and the Supervisory Board together set TBC's operational risk appetite and the Management Board oversees compliance with the limits set therein. The Management Board discusses TBC's operational risk profile and risk minimisation recommendations on a regular basis and ensures the existence of a strong internal control culture in which control activities are an integral part of TBC's regular activities.

The Operational Risk Department is responsible for the implementation of the operational risk management framework and reports to the CRO.

The Information Security Department is responsible for monitoring IT incident occurrences and overseeing activities targeted at solving identified problems. External consultants perform regular assessments of information security risks, which are managed based on international standards.

To minimize information security risk TBC has invested in data loss prevention and Security Information and Event Management ("**SIEM**") systems. The data loss prevention system is designed to detect potential data breaches and prevent sensitive data from loss and misuse. SIEM technology provides real-time analysis of security alerts generated by network hardware and applications.

On top of daily activities undertaken by business units and operational risk departments, periodic risk and control self-assessments are performed for all processes within TBC based on which key risk indicators and key control indicators are established and managed.

Major actions continuously undertaken by TBC for minimising operational risk losses are:

- embedding internal controls into TBC's usual business processes;
- implementing new technologies, increasing levels of automation and minimizing manual errors and human risk;
- using insurance policies to transfer the risk of losses from operational risk events;
- entering into external service-level agreements to minimise risks from inadequate outsourcing arrangements. TBC has adopted an outsourcing and critical business partner management policy which defines the criteria for selecting an outsourcing partner;
- establishing business continuity plans to ensure TBC's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption. Business Continuity plan is tested on an annual basis.
- implementing procedures to analyse system flaws and taking corrective measures to prevent the re-occurrence of significant losses;
- involving the Operational Risk Department in the approval process of new products and services to minimise risks relating thereto. TBC has adopted new product and process implementation procedures which define the rules of implementation of new products or related processes; and

- developing a special Operational Risk Awareness programme for TBC employees and providing regular training to further strengthen TBC's internal risk culture.

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

TBC 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. TBC implements in depth defence strategy to address the cyber-risk. TBC has multi-layer security controls from data and endpoint computers to edge firewalls to protect TBC from cyber-threats. Security incident and event monitoring systems, in conjunction with respective processes and procedures ensure that suspicious activity within the corporate network will be detected and handled in an effective way. TBC also has a comprehensive employee training programme on cyber-security.

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, the Information Security Committee is actively involved in improving information security and business continuity management processes to minimise information security risks.

Compliance Risk Management and Anti-Money Laundering

TBC has established a compliance function that is represented by a three-level structure consisting of a Compliance Department, the CEO and the RECC. The Compliance Department is responsible for, *inter alia*, assisting with the identification and assessment of compliance risk in all business activities; advising on compliance policy, processes, rules and standards; ensuring effective regulatory change management process; assessing the adequacy of internal compliance processes; helping with the coordination of responses to requests from external regulators and ensuring that TBC follows appropriate procedures including AML, conflicts of interest, monitoring compliance of the Issuer with the all relevant legislation in relation to data protection and insider trading. The Compliance Department is subordinated to the CEO and accountable to the RECC, and acts independently within TBC.

TBC's AML programme, established in accordance with Georgian law, is a part of TBC's compliance framework. The AML unit of the Compliance Department is responsible for AML issues. The AML policy and complementary internal standards and procedures include Georgian Law requirements, as well as measures based on recommendations from international bodies, such as the Financial Action Task Force, Basel, United Nations and the Office of Foreign Assets Control, and contain "Know Your Customer" procedures, methods for the assessment of correspondent banks, processing and retaining documentation, maintaining and updating its client database, operational standards, risk-based assessment of customers, due diligence procedures, identification of suspicious transactions and transactions that are subject to mandatory reporting to the FMS. The AML policy (and any amendments thereto) is approved by the Management Board and the Supervisory Board. TBC's AML policy and all related internal instructions and standards are available to all employees through TBC's intranet.

To adhere to AML policy requirements, TBC has implemented automated solutions for (i) client screening against sanctioned lists during the on-boarding process and international money transfers, (ii) AML risk assessment of clients, products and services and (iii) revealing suspicious behaviour on client's accounts. An automated process is performed through Siron products provided by FICO-Tonbeller.

The Compliance Department delivers in class as well as non-class trainings in AML and compliance topics which are tailored for different target groups, including new employees. Training in AML and other compliance issues is conducted annually and is followed by staff testing on an annual basis.

TBC's AML compliance activities are reviewed by TBC Bank's Internal Audit Department annually and are subject to review by the NBG every one to three years. In 2017, the NBG conducted a thematic AML/counter terrorism financing inspection of TBC Bank. Following the inspection, the NBG identified a certain number of transactions in connection with which TBC Bank was required to pay penalties in the aggregate amount of GEL 1.9 million. The majority of these transactions were related to few companies, which were considered not to be properly identified and the amount of a single penalty for most of these

transactions did not exceed GEL 1,000. However, in its inspection report, the NBG noted the progress that TBC Bank had made to date, as well as the planned actions going forward and gave further instructions to TBC Bank for strengthening the internal monitoring and supervision measures.

In 2018, in connection with an NBG inspection of certain corporate borrowers, TBC Bank paid a fine of GEL 10,000 relating to a transaction that, in the view of the NBG, had not been reported to the FMS by TBC within the timeframes specified under relevant anti-money laundering guidelines applicable to designated transactions (such as transactions exceeding certain thresholds). Other than in connection with this inspection, TBC's AML compliance activities have not been reviewed by the NBG since the thematic review in 2017. As of the date of this Prospectus, no TBC group company has been accused, named or cited in connection with any occurrences of money laundering, financing of terrorist activity, fraud, or other corrupt or illegal purpose transactions or breaches of Georgian laws prohibiting such activities.

To comply with the provisions of FATCA, TBC Bank and its subsidiary "foreign financial institutions" (as defined by FATCA) were registered with the IRS in May 2014. In compliance with FATCA requirements, TBC adjusted its client on boarding and pre-existing account review processes. Under Georgia's "Model 1" intergovernmental agreement with the United States, TBC is obliged to submit the FATCA reports to the Ministry of Finance, which then uploads the information to the IRS. TBC has already submitted its first such report.

Reputational Risk Management

TBC's business model is built on public trust and therefore aims to ensure that no activities are undertaken which may result in an adverse reputational impact. The maintenance of a strong reputation on the part of customers, counterparties, shareholders, investors, debtholders, market analysts and other relevant parties or regulators is considered to be a key to access to sources of funding and business model sustainability.

Management believes that one of TBC's key strengths is its well-known and trusted brand, and is consequently very protective of the strong reputation that TBC has developed in the Georgian banking market. TBC's risk management efforts include:

- monitoring TBC's reputation, addressing matters damaging that reputation and using the feedback of external stakeholders to gain insights or receive early warning signals of potential concerns;
- identifying and reporting reputational risk-related matters by both business units and risk staff in their daily interactions with clients as well as through the process of project and product development;
- escalating concerns to top governing bodies for prompt reactions; and
- restricting activities that may cause reputational damage to TBC, such as projects and activities having negative environmental or social impacts.

Strategic Risk Management

Strategic risk is the current or prospective risk to earnings and capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to changes in the business environment, both internal and external. This risk is a function of the compatibility of TBC's strategic goals, the business strategies developed and resources employed to achieve strategic goals, and the quality of implementation of those goals.

The aim of strategic risk management efforts is to maintain TBC's strategic risk at defined levels in accordance with its strategic objectives. To achieve this, TBC has created a strategic risk management system and a system of early reaction intended to prevent critical losses due to strategic risks. The strategic risk management system consists of the following main stages: (i) identification, (ii) measurement, (iii) monitoring and (iv) control and mitigation.

The Management Board has overall responsibility for TBC's strategic objectives and key principles of the strategic risk management framework. The primarily responsibility for strategic risk assessment, management, monitoring and control lies with the Strategic Planning and Budgeting Department and TBC's business segments.

An analysis of TBC's actual performance compared to its stated goals is reported to the Management Board on a regular basis. This report includes the level of strategic risk for the period and its dynamic, mitigating actions undertaken to address these risks, potential strategic risks for future periods and recommendations.

PRINCIPAL SUBSIDIARIES

TBC Bank had the following direct and indirect subsidiary undertakings as of 31 March 2019:

Name	Registered office	Industry	Percentage of capital held (directly/ indirectly)	Year of incorporation
Consolidated Subsidiaries				
United Financial Corporation JSC	Tbilisi, Georgia	Card processing	98.67%	2001
TBC Capital LLC	Tbilisi, Georgia	Brokerage	100.00%	1999
TBC Leasing JSC	Tbilisi, Georgia	Leasing	99.61%	2003
TBC Kredit LLC	Baku, Azerbaijan	Non-banking credit institution	100.00%	1999
Banking Systems Service Company LLC	Tbilisi, Georgia	Information services	100.00%	2009
TBC Pay LLC	Tbilisi, Georgia	Processing	100.00%	2008
TBC Invest LLC	Ramat Gan, Israel	PR and marketing	100.00%	2011
Index LLC	Tbilisi, Georgia	Real estate management	100.00%	2009
Associates				
JSC CreditInfo Georgia	Tbilisi, Georgia	Financial intermediation	21.08%	2005
LLC Online Tickets	Tbilisi, Georgia	Computer and Software Services	26.00%	2015

In addition to the subsidiaries listed above, TBC Bank had de-facto control (actual control without legal form of ownership) over the following entities as of 31 March 2019:

Name	Registered office	Industry	Percentage of capital held (directly/ indirectly)	Year of incorporation
Real Estate Management Fund JSC	Tbilisi, Georgia	Real estate management	—	2010
BG LLC	Tbilisi, Georgia	Real Estate	—	2018

MANAGEMENT

Overview

TBC Bank's corporate bodies are the General Meeting of Shareholders (the "**GMS**"), the Supervisory Board and the Management Board, each having its own responsibilities and authorities in accordance with Georgian law and TBC Bank's charter (the "**Charter**"). The GMS, the supreme internal governing body of TBC Bank, elects the members of the Supervisory Board, which is responsible for supervising the Management Board. The Supervisory Board appoints the members of the Management Board, which is the executive body of TBC Bank directly responsible for day-to-day operations. The Parent Company determines the ultimate strategy for TBC Bank and the Parent Company group as a whole. Under the newly adopted Corporate Governance Code, all banks in Georgia are required to have at least audit and risk committees within their supervisory board, and systemically important banks are additionally required to have corporate governance and remuneration committees under their supervisory boards.

TBC Bank's General Meeting of Shareholders

All shareholders registered on the share registrar on the record date of the GMS have the right to attend and vote (if applicable) at the meeting. Georgian law provides that holders of preferred shares are not entitled to voting rights at the GMS, unless the Charter or any relevant share issue prospectus allocates voting rights to preferred shareholders. According to the Charter, holders of preferred shares are not entitled to voting rights at the GMS. As of the date of this Prospectus, TBC Bank has not issued any preferred shares. Shareholders may be represented at the GMS by a proxy.

Under Georgian law and the Charter, shareholders are authorised to pass resolutions, *inter alia*, on the following issues at a GMS:

- election and dismissal of the members of the Supervisory Board;
- approval of the reports of the Management Board and the Supervisory Board;
- approval of annual financial statements submitted by the Management Board;
- approval of the compensation of the Supervisory Board members;
- deciding on the profit (dividend) distribution proposal prepared by the Supervisory Board or the Management Board;
- amending the Charter;
- increase of share capital or reductions of share capital;
- determining a date for payment of contribution by the shareholders and/or requesting its payment;
- approval of a merger, division or other reorganisation of TBC Bank;
- liquidation and commencement a general assignment to creditors or voluntary winding-up under applicable bankruptcy, insolvency or similar laws with respect to any subsidiary where the assets of such subsidiary account for more than 10% of the total consolidated assets of TBC Bank or such subsidiary has earnings before interest, tax, depreciation and amortisation representing more than 10% of TBC Bank's total consolidated earnings before interest, tax, depreciation and amortisation;
- cancellation of pre-emptive rights of the shareholders;
- liquidation of TBC Bank;
- other issues provided by law.

Supervisory Board and Management Board

Supervisory Board

The Supervisory Board is responsible for supervising the Management Board, and, subject to the overall directions of the board of directors of the Parent Company, TBC's business, risk strategy and financial soundness. The Supervisory Board also assists the Management Board by giving advice and monitors compliance with established objectives. The approval of the Supervisory Board is required for material acquisitions, borrowings, investments and other transactions of TBC Bank. In performing their duties, the Supervisory Board members are required to act in the best interests of TBC. Certain resolutions of the

Management Board are subject to the prior approval of the Supervisory Board. The Supervisory Board currently comprises five members, four of whom are also members of the Parent Company's board of directors as of the date of this Prospectus. TBC Bank intends to appoint another independent member to the Supervisory Board in the near term.

On 21 February 2019, TBC Bank announced a restructuring of its Supervisory Board following which its founding shareholders (Mamuka Khazaradze and Badri Japaridze) stepped down from the Supervisory Board in April 2019, although they have retained their positions as the Chairman and Deputy Chairman of the Parent Company's board of directors.

The following table sets out the name, age, current position and date of appointment of the members of the Supervisory Board.

Name	Year of Birth	Position	Date of appointment/reappointment
Jyrki Koskelo	1952	Independent Member and Chairman of the Supervisory Board	2019
Nikoloz Enukidze	1970	Independent Member of the Supervisory Board	2013
Nicholas Haag	1958	Independent Member of the Supervisory Board	2013
Tsira Kemularia	1977	Independent Member of the Supervisory Board	2018
Maria Luisa Cicognani	1964	Independent Member of the Supervisory Board	2018

The business address of each of the members of the Supervisory Board is 7 Marjanishvili Street, Tbilisi 0102, Georgia. Biographical details of each of the members of the Supervisory Board are set out below.

Jyrki Koskelo graduated from Technical University Helsinki with a M.Sc. in Civil Engineering in 1977 and received an MBA in International Finance from MIT, Sloan School of Management in 1983. Mr. Koskelo has extensive leadership experience in a diverse range of industries and markets. He was CEO of Georeda Ltd, a large engineering company, from 1977 to 1983 and Vice President of Finance of Geo/ Hydro Inc., a high technology GPS start up, from 1983 to 1987. Mr. Koskelo joined The International Finance Corporation in 1987 working in the Africa and Eastern and Central Europe regions, and during his 24 years at the company held a number of senior leadership positions, including appointments as director of IFC's work out department in 2000, director of global financial markets in 2004, vice president and member of IFC's Top Management Committee in 2007 and special advisor to the CEO in 2011. While reporting to the CEO, Mr. Koskelo led the formulation and implementation of the IFC's investment strategy, policies, and practice across industries and regions and oversaw all of IFC's portfolio of private equity and debt investments across regions and products. From 2012 until 2013, Mr. Koskelo was a board member of the African Banking Corporation and the African Development Corporation and served as Chairman of RSwitch between 2013 and 2014. He was a senior advisor to a number of companies between 2014 and 2018, including European Stability Mechanism (2012 - 2014), AtlasMara Co-Nvest (2014 - 2016), MyBucks (2016 - 2017) and the Al Jaber Group (2016 - 2018). Mr. Koskelo currently serves as a board member of a number of companies across the globe with an emerging market focus. He is a board member of the Africa Agriculture and Trade Investment Fund, EXPO Bank and FIBank, and serves as the chairman of Invest Solar, a Botswanan investment vehicle focused on solar energy. Mr. Koskelo also sits on the Advisory Board of Sofala Partners and is involved in significant ongoing investment development in his position on the Advisory Board of Nordic Fund of Funds. Mr. Koskelo was appointed as Chairman of the TBC Bank Supervisory Board as an independent member thereof in May 2019.

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 London Stock Exchange, 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. Prior to joining TBC, Mr. Enukidze also served as Chairman of the Supervisory Board of Galt & Taggart Securities. At present, as founder of Nine Oaks Advisors, Mr. Enukidze acts as financial adviser and investor on projects in Central and Eastern Europe. Since 2011 he has also served as an independent Director of the Supervisory Board and member of the Audit Committee of TMM Real Estate Development PLC, a Ukrainian real estate development company listed on the Deutsche Börse since 2007, and since 2014 as the Chairman of the Supervisory Board of JSC Caucasus Minerals. Mr. Enukidze was born and raised in Tbilisi and is a Georgian and British national. Mr. Enukidze was appointed to the Supervisory Board as an independent member in 2013.

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. 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 has served as a senior independent adviser to the Chairman of the Management Board and since 2013 as a member of the Supervisory Board of Credit Bank of Moscow and a financial consultant specializing in capital raisings and stock exchange flotations. He also serves as an Independent Non-executive Director of Bayport Management Limited. Since 2012 he has acted as sole Director of his own consulting company, Nicdom Limited. Mr. Haag was appointed to the Supervisory Board in 2013.

Tsira Kemularia graduated from the Louisiana State University with a degree in International Trade and Finance and 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, Russia. 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 the Parent Company and as an independent member of the Supervisory Board in September 2018.

Maria Luisa Cicognani graduated from Bocconi University in 1987 with a degree in Business and Administration. She holds a master degree from the International 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 the 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), and as Chair of the Supervisory Board at MONETA Money Bank, a.s. in 2017-2018. Between 2015 and June 2018, Ms. Cicognani served as a NED at Arafa Holding (Egypt), and is a Board observer at Baird Group (UK), a subsidiary of Arafa Holding (listed on the Cairo Stock Exchange). She is currently Chairperson of Mobius Investment Trust PLC, which is listed on the London Stock Exchange. Ms. Cicognani was appointed to the Board as an independent non-executive Director of the Parent Company and as an independent member of the Supervisory Board in September 2018.

Management Board

The Management Board is an executive body that is responsible for the day-to-day management of TBC Bank (with the exception of the functions reserved to the General Meeting of Shareholders and the Supervisory Board). The Management Board is accountable to the shareholders of TBC Bank and the Supervisory Board and its members are appointed by the Supervisory Board for renewable terms of four years and are also dismissed by the Supervisory Board. The number of the members on the Management Board at any time is determined by the Supervisory Board, provided the number of directors in the Management Board shall not be less than three. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each member must fulfil. See "*Banking Sector and Banking Regulation in Georgia—Corporate governance—Regulation of commercial bank employees and supervisory board members*".

The following table sets out the name, age, current position and term of appointment of the members of the Management Board.

Name	Year of Birth	Position	Date of appointment/ reappointment
Vakhtang Butskhrikidze	1970	Chief Executive Officer	2015
Giorgi Shagidze	1975	Deputy CEO (Chief Financial Officer)	2015
Tornike Gogichaishvili	1979	Deputy CEO (Chief Operations Officer)	2018
David Chkonia	1978	Deputy CEO (CRO)	2016
George Tkhelidze	1978	Deputy CEO, Corporate Banking	2017
Nino Masurashvili	1975	Deputy CEO, Retail Banking	2015
Nikoloz Kurdiani	1982	Deputy CEO (SME and Micro Banking)	2018

The business address of each of the members of the Management Board is 7 Marjanishvili Street, Tbilisi 0102, Georgia. Biographical details of each of the members of the Management Board are set out below.

Vakhtang Butskhrikidze joined TBC 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 and has headed a number of TBC's committees. Mr. Butskhrikidze was appointed as CEO and as a director of the Parent Company in May 2016. He also served as a member of the Supervisory Board from September 2016 until 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—Organisation 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 became deputy CEO and Chief Financial Officer of TBC and was appointed to the Management Board in 2010. Mr. Shagidze was appointed as a Chief Financial Officer and as a director of the Parent Company in May 2016. He also served as a member of the Supervisory Board from September 2016 until April 2018. He is a board member of the GSE and also served as member of the supervisory board of Bank Constanta until its merger with TBC in 2015. Prior to joining TBC, 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 graduated from Tbilisi State University in 1997 with a degree in Economics. He is also a CFA Charterholder and a member of the CFA Society in the United Kingdom.

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

George Tkhelidze joined TBC in 2014 as Deputy CEO in charge of Risk Management. Following the acquisition of Bank Republic and the creation of the Corporate and Investment Banking unit at TBC in November 2016, George overtook the responsibility for the Corporate and Investment Banking unit. George has more than 15 years of experience in financial services. Prior to joining TBC, George worked for Barclays Investment Bank where he held the position of vice president in the Financial Institutions Group 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 between 2000 and 2007, where he also served as CEO. George graduated from the London Business School with an MBA degree in 2009. He also holds a Master of Laws degree in International Commercial Law from the University of Nottingham (2002) and a graduate degree in Law from Tbilisi State University (2000).

David Chkonia joined TBC in 2017 as CRO 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 and was responsible for the risk advisory practice. Between 2009 and 2011, David worked at the European Resolution Capital helping Western European banks with non-performing loan 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 while also focusing on restructuring assignments. David started his career at the EBRD executing debt and equity investment transactions in the CEE and working 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.

Nino Masurashvili joined TBC 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 of retail and SME banking in 2006. Between 2006 and 2008, Nino was the chairman of the supervisory board of UFC. Between 2011 and 2015, she was also a member of the supervisory board of Bank Constanta until its full merger with TBC. Between 2011 and 2016, Nino was 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 has more than 15 years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC 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 his BBA studies at Ruhr University Bochum in Germany and the Caucasus School of Business.

Board Committees

As envisaged by the Corporate Governance Code, TBC Bank has established four principal committees: the Audit Committee, Remuneration Committee, Corporate Governance and Nomination Committee and Risks, Ethics and Compliance Committee. The current membership composition of these committees may change following the new appointments to the Supervisory Board of Jyrki Koskelo and an additional member.

Audit Committee

The members of the Audit Committee are Nicholas Haag (Chairman of the Audit Committee), Nikoloz Enukidze, Tsira Kemularia and Maria Luisa Cicognani. All of them are considered to be independent by TBC. The Audit Committee has responsibility for: (i) recommending the financial statements to TBC Bank and for reviewing TBC's financial reporting and accounting policies, including formal announcements and trading statements relating to TBC's financial performance; (ii) the relationship with the internal and external auditors and for assessing the role and effectiveness of the internal audit function; (iii) reviewing TBC's procedures for detecting, monitoring and managing the risk of fraud; (iv) recommending to the GMS the appointment, re-appointment and removal of the external auditors; (v) reviewing the nature, scope and results of the annual external audit; (vi) recommending the audit fee and on an annual basis, assesses the effectiveness and independence of the external auditors; and (vii) keeping under review TBC's internal controls and systems for assessing and mitigating financial and non-financial risk.

Remuneration Committee

The members of the Remuneration Committee are Maria Luisa Cicognani (Chairman of the Remuneration Committee), Nicholas Haag, and Nikoloz Enukidze. All of them are considered to be independent by TBC.

The principal purpose of the Remuneration Committee is to consider and approve the evaluation and motivation system for the Supervisory Board and the Management Board, to consider and present for approval the compensation arrangements of the Supervisory Board members and Management Board members to the Supervisory Board and the GMS.

Corporate Governance and Nomination Committee

The members of the Corporate Governance and Nomination Committee are Nikoloz Enukidze and Tsira Kemularia. Both of them are considered by TBC to be independent.

The principal purpose of the Corporate Governance and Nomination Committee is to develop and recommend for approval to the Supervisory Board corporate governance principles and guidelines applicable to TBC, to monitor TBC's governance practice against world-wide best practices, to review the strategic planning process and to engage in the selection and screening process to identify individuals qualified to become the members of the Supervisory Board and the Management Board.

Risks, Ethics and Compliance Committee

The members of the Risks, Ethics and Compliance Committee are Nikoloz Enukidze (Chairman), Nicholas Haag, Tsira Kemularia, Maria Luisa Cicognani. All of them are considered by TBC to be independent.

The purpose of the Risks, Ethics and Compliance Committee is to assist the members of the Supervisory Board in their oversight of all matters related to the risk management practices of TBC Bank and its subsidiaries and the implementation of the highest standards of business ethics and compliance with all of the legal requirements to which TBC Bank and its subsidiaries are subject.

Conflicts of Interest

There are no potential conflicts of interest between any duties of any of the Issuer's Supervisory Board and Management Board to the Issuer, and their private interests and/or other duties.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

The following table sets out information regarding the ownership of TBC Bank's shares as of 31 March 2019.

Owner	Shares Owned	
	Number	%
TBC Bank Group PLC	52,475,710	99.88%
Others*	64,059	0.12%
Total shares outstanding as of 31 March 2019	**52,539,769**	**100.00%**

* Other includes individual shareholders.

None of TBC Bank's shareholders have voting rights different from any other shareholders. The rights of shareholders in TBC Bank are contained in the Charter.

The Chairman and Deputy Chairman of TBC's parent company, TBC Bank Group PLC, on 28 June 2019 entered (via an SPV) into a repurchase transaction with a third party financial institution over 993,050 ordinary shares of TBC Bank Group PLC, representing approximately 1.81% of the total share capital of TBC Bank Group PLC. Pursuant to the terms of the repurchase transaction, the Chairman and Deputy Chairman have transferred the relevant shares to an SPV that will sell them to a third party financial institution and agree to repurchase them on 28 June 2021, as a form of borrowing secured on their shares of TBC Bank Group PLC. The repurchase transaction will not impact their position as Chairman and Deputy Chairman of TBC Bank Group PLC.

Related Party Transactions

In the ordinary course of its business, TBC Bank has engaged, and continues to engage, in transactions with related parties. Related parties include, among others, shareholders, including TBC Bank Group PLC and its shareholders, all managers and senior personnel of TBC Bank, companies affiliated with TBC Bank and certain shareholders and managers of such affiliated companies. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control. TBC Bank seeks to conduct all related party transactions on market terms and at market prices.

According to the Charter, any related party transaction (as defined by the NBG) other than a transaction with a subsidiary of TBC Bank (as defined by the NBG under the relevant applicable regulations), is subject to the prior approval of the Supervisory Board.

Pursuant to the Securities Market Law, certain approval and transparency requirements apply to transactions in which the members of the managing bodies of a Reporting Company (which TBC Bank became following the public offering of the Senior Notes in Georgia in June 2019), and direct or indirect owners of 20% or more of its shares, are regarded as Interested Parties, as defined by law. According to the Securities Market Law, transactions involving Interested Parties and transactions with 10% or more of the value of the assets of the Reporting Company must be approved by the supervisory board or the general shareholders meeting of the Reporting Company.

Pursuant to Georgian law, the Supervisory Board must approve transactions with related parties that result in an exposure (i) to individuals, which exceeds the lesser of GEL 150,000 and 0.5% of regulatory capital, (ii) to legal entities, which exceeds the lesser of GEL 200,000 and 1% of regulatory capital, and (iii) in case of liability secured with deposit, which exceeds GEL 1.0 million. Supervisory Board approval is also required for transactions with related parties as a result of which TBC Bank's annual total cash outflow in return for delivery of products or rendering of services, exceeds GEL 200,000. Furthermore, any changes in financial terms and conditions of the approved transactions shall be approved by the Supervisory Board. Consummation of related party transactions which result in a commercial bank purchasing assets or services valued in aggregate above 5% of the regulatory capital in any calendar year would be subject to prior approval of the NBG.

The following tables show outstanding balances at the period end, related party expense and income for the periods indicated and aggregate loan amounts advanced to, and repaid, by related parties during

periods indicated. For further details of certain transactions, see Note 26 to the Unaudited Consolidated Interim Financial Statements and Note 43 to the Audited Consolidated Financial Statements.

Outstanding balances

As of 31 March 2019	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(unaudited) (GEL thousands)		
Gross amount of loans and advances to customers (contractual interest rate: 0.4% - 36.0%)	—	1,072	11,336	—
Credit loss allowance for loans and advances to customers	—	—	2	—
Guarantees	—	5,428	—	35
Credit loss allowance of Guarantees	—	23	—	—
Customer accounts (contractual interest rate: 0.0% - 11.5%)	115,370	17,931	9,028	12,000

As of 31 December 2018	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(audited) (GEL thousands)		
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%)	81,311	27,095	21,328	11,123
Guarantees	—	10,216	—	35
Provision on guarantees	—	36	—	—

As of 31 December 2017	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(audited) (GEL thousands)		
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%)	11,621	40,100	11,190	6,874
Guarantees	—	9,901	512	14
Other borrowed funds	24,000	—	—	—
Provision on guarantees	—	30	2	—

As of 31 December 2016	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(audited) (GEL thousands)		
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	—	1,055	—	—
Due to credit institutions (contractual interest rate: 5.7% - 9.7%)	—	257,415	—	—
Customer accounts (contractual interest rate: 0.0% - 13.5%)	2,719	38,998	14,548	4,314
Other borrowed funds	2,000	—	—	—
Guarantees	—	28,509	—	—
Provision on guarantees	—	192	—	—

The income and expense items with related parties except from key management compensation

Three months ended 31 March 2019	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(unaudited) (GEL thousands)		
Interest income—loans and advances to customers	—	19	174	—
Interest expense	1,546	4	58	205
Gains less losses from trading in foreign currencies	20	22	12	105
Foreign exchange translation gains less losses	—	(2)	40	—
Fee and commission income	2	20	9	6
Administrative and other operating expenses (excluding staff costs)	—	31	85	—

Year ended 31 December 2018	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(unaudited) (GEL thousands)		
Interest income—loans and advances to customers	—	22	591	—
Interest expense	5,879	411	301	563
Gains less losses from trading in foreign currencies	—	479	65	25
Foreign exchange translation gains less losses	—	28	352	—
Fee and commission income	3	87	50	8
Administrative and other operating expenses (excluding staff costs)	—	89	297	—

Year ended 31 December 2017	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(audited) (GEL thousands)		
Interest income—loans and advances to customers	—	20	444	—
Interest income—available securities for sale	—	747	—	—
Interest expense	1,807	928	449	398
Gains less losses from trading in foreign currencies	—	186	56	15
Foreign exchange translation gains less losses	—	(46)	(36)	—
Fee and commission income	9	122	944	8
Administrative and other operating expenses (excluding staff costs)	—	58	239	—
Net loss on derivative financial instruments	—	46	—	—

Year ended 31 December 2016	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
		(audited) (GEL thousands)		
Interest income	32	160	399	—
Interest expense	1,181	16,254	503	41
Gains less losses from trading in foreign currencies	—	115	18	—
Foreign exchange translation gains less losses	—	191	465	—
Fee and commission income	1	70	13	—
Fee and commission expense	—	580	—	—
Administrative and other operating expenses (excluding staff costs)	—	1	155	—
Net loss on derivative financial instruments	—	206	—	—

Aggregate amounts of loans advanced to and repaid by related parties

Three months ended 31 March 2019	Significant shareholders	Key management personnel
	(audited) (GEL thousands)	
Amounts advanced to related parties during the year	65	2,448
Amounts repaid by related parties during the year	(625)	(2,733)

Year ended 31 December 2018	Significant shareholders	Key management personnel
	(audited) (GEL thousands)	
Amounts advanced to related parties during the year	2,465	13,547
Amounts repaid by related parties during the year	(1,055)	(10,195)

Year ended 31 December 2017	Significant shareholders	Key management personnel
	(audited) (GEL thousands)	
Amounts advanced to related parties during the year	573	3,012
Amounts repaid by related parties during the year	(1,293)	(3,920)

Year ended 31 December 2016	Significant shareholders	Key management personnel
	(audited) (GEL thousands)	
Amounts advanced to related parties during the year	7,264	10,568
Amounts repaid by related parties during the year	(9,596)	(5,722)

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions in the form in which they will be endorsed on the Notes:

The issue of US$125,000,000 10.775% perpetual subordinated callable Additional Tier 1 Capital notes (the "**Notes**", which expression shall include any further Notes issued pursuant to Condition 20 (*Further Issues*) and consolidated and forming a single series therewith, and "**Note**" shall be construed accordingly) was authorised by a resolution of the Supervisory Board of JSC TBC Bank (a licenced bank in Georgia with company number 204854595) (the "**Issuer**") passed on 13 June 2019 and a resolution of the Board of Directors of the Issuer's parent company, TBC Bank Group PLC, passed on 13 June 2019. The Notes are constituted by a Trust Deed (the "**Trust Deed**", which expression includes any such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 3 July 2019 between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes. These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed, and of the Agency Agreement (the "**Agency Agreement**", which expression includes any such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 3 July 2019 relating to the Notes between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as the initial principal paying agent (the "**Principal Paying Agent**"), calculation agent (the "**Calculation Agent**") and transfer agent (the "**Transfer Agent**"), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**"), and any other agents named in it, are available for inspection during usual business hours by prior appointment at the specified offices of the Principal Paying Agent for the time being, the Transfer Agent, the Calculation Agent and the Registrar. "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent, the Calculation Agent and any other agent or agents appointed pursuant to the Agency Agreement from time to time with respect to the Notes. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

The Notes shall not be advertised, marketed, offered or sold on the territory of Georgia in a public offering other than in accordance with the Law of Georgia on Securities Market (the "**Securities Market Law**") and as set forth below. After the admission of the Notes to the official list and trading on the regulated market of the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**"), the Notes may be offered in Georgia in a public offering and an application may be made to list the Notes on JSC Georgian Stock Exchange. In the event that the Notes are placed/listed on Euronext Dublin, which is a "recognised stock exchange of the foreign country", the Notes may be offered in Georgia in a public offering without the approval of a prospectus by the Competent Authority, provided that the Competent Authority is notified about the public offering of the Notes in accordance with Georgian law and the International Securities Identification Number (ISIN) of the Notes, as well as evidence of listing of the Notes on Euronext Dublin, is provided to the satisfaction of the Competent Authority in advance of the offering in Georgia. JSC Georgian Stock Exchange needs an approval of the Competent Authority to list the Notes.

The Notes are not intended to be offered or sold and should not be offered or sold to any natural person for the purpose of Applicable Banking Regulations.

The Notes are not intended to be sold and should not be sold to retail clients (as defined in Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/71/EU ("**MiFID II**"), as amended or replaced from time to time).

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only to (i) qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on the exemption from registration under the Securities Act provided by Rule 144A (the "**Rule 144A Notes**") and (ii) in offshore transactions in reliance on Regulation S (the "**Regulation S Notes**").

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Trust Deed, the absence of any such meaning indicating that such term is not applicable to the Notes.

1. FORM, SPECIFIED DENOMINATION AND TITLE

1.1 The Notes are issued in registered form, without interest coupons attached, and shall be serially numbered. Notes, whether sold (i) in offshore transactions in reliance on Regulation S under the Securities Act, or (ii) to QIBs in reliance on Rule 144A under the Securities Act, will be issued in the denominations of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

1.2 The Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a) (*Transfer*), each Certificate shall represent the entire holding of Notes by the same holder.

1.3 Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

1.4 In these Conditions, "**Noteholder**" and "**holder**" means the person in whose name a Note is registered.

2. TRANSFERS OF NOTES

(a) **Transfer**: One or more Notes may be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement (the "**Regulations**"). The Regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current Regulations will be made available by the Registrar to any Noteholder upon request.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) (*Transfer*) shall be available for delivery within three business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(b) (*Delivery of New Certificates*), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfer or Exercise Free of Charge**: Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax

or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods**: No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment due on the Notes, (ii) after any such Note has been called for redemption in accordance with these Conditions, or (iii) during the period of seven days ending on (and including) any Record Date (as defined below).

3. STATUS

The Notes constitute (subject to Condition 4 (*Subordination of the Notes*)) direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders are subordinated as described in Condition 4 (*Subordination of the Notes*).

4. SUBORDINATION OF THE NOTES

The payment obligations of the Issuer under the Notes constitute direct, unsecured and subordinated obligations of the Issuer, but subject to any other ranking that may apply as a result of any mandatory provision of law, and upon the insolvency or the liquidation of the Issuer (determined at all times in accordance with Applicable Banking Regulations), rank:

(a) *pari passu* and without any preference among themselves and with (A) any claims for principal in respect of other contractually subordinated obligations of the Issuer qualifying as Additional Tier 1 Instruments and (B) any other subordinated obligations of the Issuer which by law and/or by their terms, to the extent permitted by Georgian law, rank *pari passu* with the Issuer's obligations under the Notes;

(b) junior to (A) any claims for principal in respect of unsubordinated obligations of the Issuer, (B) any subordinated obligations of the Issuer qualifying as Tier 2 Instruments, (C) any claims in respect of other contractually subordinated obligations of the Issuer not qualifying as Additional Tier 1 Instruments and which do not fall within Condition 4(a) or 4(c), and (D) any other subordinated obligations of the Issuer which by law and/or by their terms, to the extent permitted by Georgian law, rank senior to the Issuer's obligations under the Notes; and

(c) senior to (A) any claims for the liquidation amount of the Ordinary Shares and (B) any other subordinated obligations of the Issuer which by law and/or by their terms, to the extent permitted by Georgian law, rank junior to the Issuer's obligations under the Notes.

5. INTEREST

(a) Each Note bears interest on its Outstanding Principal Amount from time to time:

(i) in respect of the period from (and including) the Closing Date to (but excluding) the First Reset Date at the rate of 10.775% per annum; and

(ii) in respect of each Reset Period, at the rate equal to the aggregate of the Margin and the 5-year Mid-Swap Rate (rounded to four decimal places, with 0.00005 rounded down), all as determined by the Calculation Agent on the relevant Reset Determination Date.

Subject as provided in Conditions 5(c) and 5(d) and Condition 6 (*Write Down*), interest will be payable semi-annually in arrear on each Interest Payment Date.

(b) If the Issuer determines that a Benchmark Event has occurred in relation to the 5-year Mid-Swap Rate, then the following provisions shall apply to the Notes:

(i) the Issuer shall use reasonable endeavours, as soon as reasonably practicable, to appoint at its own expense an Independent Financial Adviser to determine (without any requirement for the consent or approval of the Noteholders) (A) a Successor Rate or, failing which, an Alternative Reference Rate, for the purposes of determining the rate of interest (or the relevant component part thereof) applicable to the Notes and (B) in either case, an Adjustment Spread. Without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Reference Rate and/or any Adjustment Spread, the Independent Financial Adviser will take into account any relevant and applicable market precedents as well as any published

guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;

(ii) if the Issuer (i) is unable to appoint an Independent Financial Adviser; or (ii) the Independent Financial Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Reference Rate in accordance with this Condition 5(b) prior to the IA Determination Cut-Off Date, the Issuer (acting in good faith and in a commercially reasonable manner and following consultation with the Independent Financial Adviser in the event one has been appointed) may determine (A) a Successor Rate or, failing which, an Alternative Reference Rate and (B) in either case, an Adjustment Spread in accordance with this Condition 5(b). Without prejudice to the definitions thereof, for the purposes of determining any Successor Rate, Alternative Reference Rate and/or any Adjustment Spread, the Issuer will take into account any relevant and applicable market precedents as well as any published guidance from relevant associations involved in the establishment of market standards and/or protocols in the international debt capital markets;

(iii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with paragraphs (i) or (ii) above, such Successor Rate or, failing which, Alternative Reference Rate (as applicable) shall be the 5-year Mid-Swap Rate with respect to each of the future Reset Dates (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b));

(iv) if the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Financial Adviser or, as the case may be, the Issuer is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;

(v) if the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) and/or an Adjustment Spread in accordance with the above provisions, the Independent Financial Adviser or, as the case may be, the Issuer may (without any requirement for the consent or approval of the Noteholders) also specify changes to these Conditions and the Trust Deed in order to ensure the proper operation of such Successor Rate or Alternative Reference Rate or any Adjustment Spread (as applicable); and

(vi) the Issuer shall promptly, following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable), give notice thereof to the Noteholders in accordance with Condition 18 (*Notices*). Such notice shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to these Conditions (if any),

provided that the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) and any other related changes to the Notes, shall only be made to the extent that it can be done in compliance with Applicable Banking Regulations (if applicable).

An Independent Financial Adviser appointed pursuant to this Condition 5(b) shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Noteholders for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 5(b).

Notwithstanding any other provision in this Condition 5(b), no Successor Rate, Alternative Reference Rate or Adjustment Spread (as applicable) will be adopted, and no other amendments to the Conditions will be made pursuant to this Condition 5(b), if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to give rise to a Capital Event.

Without prejudice to the obligations of the Issuer under this Condition 5(b), the 5-year Mid-Swap Rate and the other provisions in this Condition 5 (*Interest*) will continue to apply (i) if the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)) is unable to or does not determine a Successor Rate or an Alternative Reference Rate in accordance with this Condition 5(b), and (ii) where the Independent Financial Adviser or, as the case may be, the Issuer does determine a Successor Rate or Alternative Reference Rate, unless and until the Noteholders have been notified of the Successor Rate or Alternative Reference Rate (as applicable), the Adjustment Spread (if any) and any consequential changes made to these Conditions (if any) in accordance with Condition 18 (*Notices*).

To the extent that the Issuer certifies to the Trustee that (i) consequential amendments to these Conditions are required pursuant to Condition 5(b)(v); (ii) the Issuer has determined that such consequential amendments are in compliance with Applicable Banking Regulations and (iii) such consequential amendments have been approved by the Competent Authority in accordance with Condition 15(e) (*Competent Authority Consent Required*) below, then the Trustee shall be obliged (at the expense of the Issuer and without any consent being required from the Noteholders) to concur with the Issuer in making any such amendments and modifications to these Conditions and the Trust Deed, and to execute any such deeds supplemental to the Trust Deed, provided that the Trustee shall not be bound to do so if any such amendments, modifications or deeds would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or prefunded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes. The foregoing shall apply even where an amendment may result in the rights of the Noteholders being prejudiced.

(c) The Issuer may elect at any time, in its sole and absolute discretion, to cancel (in whole or in part) the payment of any Interest otherwise scheduled to be paid on an Interest Payment Date, subject to Conditions 5(k) and 5(l) below.

(d) Without prejudice to any right of the Issuer to cancel the payments of any Interest under Condition 5(c) above:

(i) The Issuer will cancel any Interest, or the relevant part thereof, otherwise scheduled to be paid on an Interest Payment Date if and to the extent that the amount of Interest, when aggregated together with any other Relevant Distributions, exceeds the amount of Distributable Items of the Issuer as at such Interest Payment Date.

(ii) If the Issuer is required to cancel a relevant payment of Interest in whole or in part in accordance with Applicable Banking Regulations, the Issuer will only make partial or, as the case may be, no payment of the relevant Interest on the Notes.

(iii) If the Competent Authority, in accordance with Applicable Banking Regulations, requires the Issuer to cancel a relevant payment of Interest in whole or in part, the Issuer will only make partial or, as the case may be, no payment of the relevant Interest on the Notes.

(iv) No payments of Interest will be made on the Notes if and to the extent that such payment would cause a breach of any regulatory restriction or prohibition on payments on Additional Tier 1 Capital pursuant to Applicable Banking Regulations.

(v) If a Write Down Event occurs at any time on or after the Closing Date, the Issuer will not make any further payments of Interest on the Notes until the Write Down Measure Effective Date and any accrued and unpaid Interest will be cancelled.

(e) For the purposes of the cancellation of Interest pursuant to Conditions 5(c) and 5(d) above, the term "Interest" will be deemed to include, if applicable, any Additional Amounts payable pursuant to Condition 11 (*Taxation*) below.

(f) Payments of Interest on the Notes are non-cumulative. Accordingly, if any payment of Interest (or part thereof) is not made in respect of the Notes as a result of any election of the Issuer to cancel such payment of Interest pursuant to Condition 5(c) above or the limitations on payment set out in Condition 5(d) above and Condition 6 (*Write Down*) below, then the right of the Noteholders to receive the relevant payment of Interest (or part thereof) in respect of the relevant Interest Period will be extinguished and the Issuer will have no obligation to pay such Interest (or part thereof) accrued

for such Interest Period or to pay any interest thereon, whether or not Interest on the Notes is paid in respect of any future Interest Period.

(g) If any scheduled payment of Interest is not made in full because of the cancellation of Interest, the Issuer shall ensure that no distribution or dividend in cash or in kind shall be paid or made on any Ordinary Shares, unless and until the Interest due and payable on the Notes on any subsequent Interest Payment Date has been paid in full or no Notes remain outstanding.

(h) Any election to cancel the payment of any Interest (or part thereof) pursuant to Condition 5(c) or any non-payment of any Interest (or part thereof) as a result of the limitations on payment set out in Condition 5(d) and Condition 6 (*Write Down*) will not constitute a default or an event of default or the occurrence of any event related to the insolvency of the Issuer (determined in accordance with Applicable Banking Regulations) or entitle Noteholders to take any action to cause the liquidation, dissolution or winding-up of the Issuer or, subject to Condition 5(g) above, in any way limit or restrict the Issuer from making any payment of Interest or distribution or equivalent payment in connection with any instrument ranking senior, junior or *pari passu* to the Notes.

If the Issuer does not pay Interest or part thereof on the relevant Interest Payment Date, such non-payment shall, subject to Condition 5(k), evidence the cancellation of such Interest (or relevant part thereof) or, as appropriate, the Issuer's exercise of its discretion to cancel such Interest (or relevant part thereof) and accordingly, such Interest payment shall not in any such case be due and payable. Notwithstanding the previous sentence, the Issuer will use all reasonable endeavours to provide at least 5 (five) Business Days' notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 18 (*Notices*) of any election under Condition 5(c) and of any limitation set out in Condition 5(d) occurring or applying and shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant Interest on the Notes that will be paid on the relevant Interest Payment Date. To the extent it is not practicable to provide at least 5 (five) Business Days' notice, the Issuer will provide notice without undue delay and in any event such notice shall be given on or prior to the relevant Interest Payment Date. Any failure to give such notice shall not affect the validity of the cancellation and shall not constitute a default for any purpose.

(i) The Calculation Agent will at, or as soon as practicable after, the relevant time on each Reset Determination Date at which the Interest Rate is to be determined, determine the Interest Rate for the relevant Reset Period. The Calculation Agent will cause the Interest Rate for each Reset Period to be notified to the Issuer who shall procure that such Interest Rate is notified to any stock exchange on which the Notes are for the time being listed or by which they have been admitted to listing and notice thereof is to be published in accordance with Condition 11 (*Taxation*) as soon as possible after its determination but in no event later than the fourth Business Day thereafter.

(j) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5 (*Interest*) by the Calculation Agent, shall (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent, the Trustee and all Noteholders and (in the absence of wilful default, gross negligence or fraud) no liability to the Issuer or the Noteholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(k) If a Capital Event has occurred, in the event that the Issuer does not exercise its option to redeem the Notes as provided in Condition 7(c), Condition 5(c) above shall not apply to the outstanding Notes (or any part thereof) that have ceased to be included in, or count towards, the Issuer's Tier 1 Capital as a result of such Capital Event (the "**Affected Notes**") and the Issuer shall not have the discretion to cancel the payment of any Interest due on such Affected Notes on any Interest Payment Date for so long as such Capital Event is continuing. The Issuer will, without undue delay and, in any event within 5 (five) Business Days of the occurrence of a Capital Event, give notice to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 18 (*Notices*) and such notice shall provide reasonable detail about the occurrence of the Capital Event.

(l) If an Approval Event has occurred, in the event that the Issuer does not exercise its option to redeem the Notes as provided in Condition 7(e), Condition 5(c) above shall not apply and the Issuer shall not have the discretion to cancel the payment of any Interest due on the Notes on any Interest Payment Date. The Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the

Noteholders in accordance with Condition 18 (*Notices*) as to whether the Final Conclusion has or has not been issued promptly following receipt of the Final Conclusion or, as applicable, promptly following the Approval Date.

6. WRITE DOWN

(a) If a Write Down Event has occurred and is continuing on the Write Down Measure Effective Date:

(i) the following consequences arise:

(A) any accrued and unpaid Interest payable in respect of the Notes shall not be paid and shall not accumulate and the Issuer's obligations hereunder to pay the amounts of accrued and unpaid Interest under the Notes shall be terminated in full (such measure being an "**Interest Cancellation Measure**" or an "**Interest Cancellation**" and "**Cancel**" or "**Cancelled**" being construed accordingly); and

(B) the Issuer's obligations hereunder to repay the Outstanding Principal Amount of the Notes as well as to pay any applicable Monetary Damages shall be terminated in full (such measure in respect of the Outstanding Principal Amount of the Notes being a "**Principal Write Down Measure**", and in respect of any Monetary Damages being a "**Monetary Damages Cancellation Measure**" and the terms "**Write Down**", "**Written Down**", "**Monetary Damages Cancellation**" and "**Cancelled**", respectively, being construed accordingly),

in each case, subject to Condition 6(h); and

(ii) on the Write Down Measure Effective Date:

(A) any applicable Monetary Damages shall be Cancelled;

(B) any applicable Interest Cancellation Amount shall be Cancelled; and

(C) the Write Down Amount shall be Written Down.

The Issuer shall provide to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 18 (*Notices*) (i) no later than two Business Days after the occurrence of the relevant Write Down Event, a Write Down Event Notice; and (ii) no later than two Business Days prior to the relevant Write Down Measure Effective Date, the Write Down Measure Notice, *provided that* any failure to give any such notice(s) shall not affect the validity of applicable Write Down Measures and shall not constitute a default for any purpose.

(b) The disclosure of the occurrence of a Write Down Event and the provision by the Issuer to the Competent Authority of information on the aggregate amounts of the Issuer's obligations under the Notes and the Write Down Instruments and Monetary Damages (if any) as may be required by Applicable Banking Regulations will be made within the periods and in the manner set out therein.

A Write Down Event may occur on more than one occasion (and Monetary Damages and accrued Interest may be Cancelled and the Notes may be Written Down in accordance with this Condition 6 (*Write Down*) on more than one occasion).

(c) The Outstanding Principal Amount of the Notes may only be used to remedy a Write Down Event *pro rata* with the Write Down Instruments and Monetary Damages and accrued Interest may only be Cancelled *pro rata* with monetary damages and accrued interest on the Write Down Instruments, *provided that*, in each case, the effectiveness of a write down or cancellation under a Write Down Instrument shall not prejudice any Write Down of the Notes or any Cancellation of Monetary Damages or Interest under the Notes. If, in connection with any Monetary Damages Cancellation, Interest Cancellation and/or Write Down (if any) of the Notes, any relevant proportion must be determined for the purpose of pro-rating such Monetary Damages Cancellation, Interest Cancellation and Write Down (if any) amongst the Notes and any Write Down Instruments, the monetary damages, accrued interest and principal amount of any obligation (including the Notes and any Write Down Instruments) which is not denominated in Accounting Currency will (for the purposes of such determination only) be deemed to be converted into Accounting Currency at the then prevailing foreign exchange rates determined in the sole discretion of the Issuer in accordance with its accounting policies established under applicable accounting standards.

(d) If the Outstanding Principal Amount of the Notes is Written Down to zero, these Conditions shall cease to have effect. Once the Outstanding Principal Amount of the Notes has been Written Down in accordance with this Condition 6 (*Write Down*), the principal amount so Written Down may not be restored under any circumstances, including where the relevant Write Down Event is no longer continuing.

(e) Any Monetary Damages and/or Interest payment that has been Cancelled in accordance with this Condition 6 (*Write Down*), shall not accumulate or be payable at any time thereafter, including where the relevant Write Down Event is no longer continuing. No Monetary Damages or Interest shall accrue from the occurrence of the relevant Write Down Event as long as a Write Down Event is continuing.

(f) Subject to this Condition 6 (*Write Down*), the Monetary Damages Cancellation Amount, the Interest Cancellation Amount and the Write Down Amount and the determination thereof shall be set out by the Issuer in the relevant Write Down Measure Notice together with the then remaining Outstanding Principal Amount of the Notes (if any) and the then remaining Monetary Damages (if any) and accrued but unpaid Interest (if any) following the relevant Monetary Damages Cancellation, Interest Cancellation and/or Write Down in accordance with this Condition 6 (*Write Down*).

(g) From the occurrence of the Write Down Event and until the Write Down Measure Effective Date, the Issuer shall not make any payments of Interest or any portion of the Outstanding Principal Amount of the Notes, and no Monetary Damages or Interest shall accrue on such unpaid amounts. The Issuer shall immediately notify the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 18 (*Notices*) in writing on the cessation of any Write Down Event, *provided that* any failure to give any such notice shall not affect the validity of any such cessation and shall not constitute a default for any purpose.

The write down mechanics set out in this Condition 6 (*Write Down*) shall not apply if the Competent Authority does not issue the Final Conclusion prior to the Approval Date. The Issuer shall notify the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 18 (*Notices*) as to whether the Final Conclusion has or has not been issued promptly following receipt of the Final Conclusion or, as applicable, promptly following the Approval Date.

(h) The Competent Authority may, at its sole discretion, and in accordance with Applicable Banking Regulations, upon the occurrence of a Write Down Event, determine that (i) any Monetary Damages and/or accrued and unpaid Interest (if any) need only be Cancelled in part only (and not in full) and/or (ii) the Outstanding Principal Amount of the Notes need only be Written Down in part only (and not in full), in each case, in order to remedy the relevant Write Down Event. In such event, if the Competent Authority delivers to the Issuer a written notice prior to the Write Down Measure Effective Date confirming that it has made such a determination and specifying the relevant amount(s) of Monetary Damages, accrued and unpaid Interest and Outstanding Principal Amount of the Notes that must be Cancelled or Written Down (as appropriate) on the relevant Write Down Measure Effective Date (the "**Partial Write Down Amounts**"), the amount of Monetary Damages, the Interest Cancellation Amount and the Write Down Amount to be Cancelled or Written Down on the Write Down Measure Effective Date (as applicable) shall be construed accordingly.

7. OPTIONAL REDEMPTION

(a) The Notes are perpetual and are only redeemable in accordance with the following provisions of this Condition 7 (*Optional Redemption*).

(b) Subject to Conditions 7(c), 7(d) and 7(e) below, the Notes shall not be redeemable prior to the First Reset Date. All, and not some only, of the Notes may be redeemed at the option of the Issuer on any Interest Payment Date falling on or after the First Reset Date at the Redemption Price, subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force).

(c) If, on or after the Closing Date, there is a Capital Event that is continuing, the Notes may be redeemed, in whole but not in part, at the option of the Issuer, subject to the prior consent of the Competent Authority (if required, and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price.

(d) If, on or after the Closing Date, there is a Tax Event that is continuing, the Notes may be redeemed, in whole but not in part, at the option of the Issuer, subject to the prior consent of the Competent Authority (if required, and otherwise in accordance with Applicable Banking Regulations then in force), at any time, at the Redemption Price.

(e) If there is an Approval Event, the Issuer may elect to redeem the Notes, in whole but not in part, within 30 days of the Approval Date, at the Redemption Price. The Issuer will use its reasonable endeavours to procure that the Competent Authority issues the Final Conclusion on or prior to the Approval Date.

(f) Any decision to redeem the Notes must be, subject to Condition 7(j) below, notified by the Issuer to the Trustee, the Principal Paying Agent and the Calculation Agent in accordance with the terms of the Trust Deed and the Agency Agreement and the Noteholders not less than 30 and not more than 60 days prior to the relevant redemption date through the filing of a notification with the Competent Authority (if required under Applicable Banking Regulations) and its publication in accordance with the rules and regulations of any applicable stock exchange and Condition 18 (*Notices*). Subject to Conditions 7(i) and 7(j) below, any such notice shall be irrevocable.

(g) In respect of any redemption pursuant to Conditions 7(c), 7(d) or 7(e) only, the Issuer will not give notice under Condition 7(f) unless, at least 2 days prior to the publication of any notice of redemption, it has delivered to the Trustee:

   (i) a certificate signed by two of its duly authorised directors or officers stating that a Capital Event, a Tax Event or an Approval Event has occurred, or there is sufficient certainty that it will occur, as the case may be, and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

   (ii) in the case of a redemption as a result of a Tax Event, an opinion of a recognised law firm of international standing to the effect that the relevant Tax Event has occurred or there is sufficient certainty that it will occur.

(h) If the Issuer gives notice of redemption of the Notes, then the Issuer will:

   (i) deposit with the Principal Paying Agent funds sufficient to pay the Redemption Price; and

   (ii) give the Principal Paying Agent instructions and authority to pay the Redemption Price to the Noteholders,

   in each case, in accordance with Condition 10 (*Payments*).

(i) If the notice of redemption has been given, and the funds deposited and instructions and authority to pay given as required above, then on and from the date of such deposit:

   (i) Interest on the Notes shall not be payable;

   (ii) such Notes will not be considered outstanding; and

   (iii) the Noteholders will not have any rights as Noteholders except the right to receive the Redemption Price,

   provided that, if such notice of redemption is automatically rescinded in accordance with Condition 7(j), this Condition 7(i) shall cease to apply.

(j) The Issuer may not give a notice of redemption pursuant to this Condition 7 (*Optional Redemption*) if a Write Down Event has occurred and is continuing. If any notice of redemption of the Notes has been given pursuant to this Condition 7 (*Optional Redemption*) and a Write Down Event occurs prior to such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, there shall be no redemption of the Notes on such redemption date and, instead, the Write Down shall take place as provided under Condition 6 (*Write Down*). In such event, any funds deposited with the Principal Paying Agent pursuant to Condition 7(h)(i) shall be promptly returned to the Issuer and any instructions given to the Principal Paying Agent pursuant to Condition 7(h)(ii) shall be automatically cancelled. The Issuer shall give notice of any such automatic rescission of a redemption notice to the Trustee, the Principal Paying Agent, the Calculation Agent and to the Noteholders in accordance with Condition 18 (*Notices*) as soon as possible thereafter.

(k) If either a notice of redemption has been given and the funds are not deposited as required on the date of such deposit or if the Issuer improperly withholds or refuses to pay the Redemption Price of

the Notes, Interest will, subject to Condition 5(d)(v), continue to accrue in accordance with Condition 5 (*Interest*) above from (and including) the redemption date to (but excluding) the date of actual payment of the Redemption Price.

(l) If a Capital Event or a Tax Event has occurred and is continuing, the Issuer (in its sole discretion, but subject as set out below), having given not less than 30 nor more than 60 days' notice to the Trustee and to the Noteholders in accordance with Condition 18 (*Notices*), may, without any requirement for the consent or approval of the Noteholders, but subject to the prior consent of the Competent Authority (and otherwise in accordance with Applicable Banking Regulations then in force), either substitute all (but not some only) of the Notes for, or vary the terms of the Notes (including changing the governing law of the Notes) so that the Notes remain or, as appropriate, become, Qualifying Additional Tier 1 Notes. Upon the expiry of such notice, the Issuer shall either vary the terms of the Notes or, as the case may be, substitute the Notes in accordance with this Condition 7(l). In connection with any substitution or variation in accordance with this Condition 7(l), the Issuer shall comply with the rules of any stock exchange on which such Notes are for the time being listed or admitted to trading. Any substitution or variation in accordance with this Condition 7(l) shall not result in any event or circumstance which at or around that time gives the Issuer a redemption right in respect of the Notes. By its acquisition of Notes, each Noteholder (which, for the purpose of this Condition 7(l), includes each holder of a beneficial interest in the Notes) shall be deemed to have expressly consented to any substitution or variation pursuant to this Condition 7(l) and to grant to the Issuer full power and authority to take any action and/or to execute and deliver any document in the name and/or on behalf of the Noteholders which is necessary or convenient to complete any such substitution or variation.

(m) To the extent that the Issuer certifies to the Trustee that (i) amendments to these Conditions are required pursuant to Condition 7(l) in order for the Notes to qualify as Qualifying Additional Tier 1 Notes; (ii) the Issuer has determined that such amendments are in compliance with Applicable Banking Regulations and (iii) such amendments have been approved by the Competent Authority in accordance with Condition 15(e) (*Competent Authority Consent Required*), then the Trustee shall be obliged (at the expense of the Issuer and without any consent being required from the Noteholders) to concur with the Issuer in making any such amendments and modifications to these Conditions and the Trust Deed, and to execute any such deeds supplemental to the Trust Deed, *provided that* the Trustee shall not be bound to do so if any such amendments, modifications or deeds would, in the opinion of the Trustee, have the effect of (i) exposing the Trustee to any liability against which it is not indemnified and/or secured and/or prefunded to its satisfaction, (ii) changing, increasing or adding to the obligations or duties of the Trustee or (iii) removing or amending any protection or indemnity afforded to, or any other provision in favour of, the Trustee under the Trust Deed, the Conditions and/or the Notes. The foregoing shall apply even where an amendment may result in the rights of the Noteholders being prejudiced.

8. PURCHASES OF NOTES

Neither the Issuer nor any of its Subsidiaries may purchase or otherwise acquire any of the outstanding Notes at any price in the open market or otherwise unless such purchase or acquisition is permitted by Applicable Banking Regulations then in force. The Issuer's Parent Entity may purchase or otherwise acquire any of the outstanding Notes only subject to the prior consent of the Competent Authority. No purchase should be directly or indirectly financed by the Issuer.

9. WAIVER OF SET-OFF

No Noteholder may at any time exercise or claim any Waived Set-Off Rights against any right, claim, or liability the Issuer has or may have or acquire against such Noteholder, directly or indirectly, howsoever arising (and, for the avoidance of doubt, including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any sort, whether or not relating to such Notes) and each Noteholder shall be deemed to have waived all Waived Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any of the amounts owing to any Noteholder by the Issuer in respect of, or arising under or in connection with the Notes is discharged by set-off, such Noteholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Issuer and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer and accordingly any such discharge shall be deemed not to have taken place.

For the avoidance of doubt, nothing in this Condition 9 (*Waiver of Set-Off*) is intended to provide, or shall be construed as acknowledging, any right of deduction, set-off, netting, compensation, retention or counterclaim or that any such right is or would be available to any Noteholder but for this Condition 9 (*Waiver of Set-Off*).

10. PAYMENTS

(a) Method of Payment:

(i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in US Dollars, as provided in Condition 10(g) (*Calculation Agent*), by payment made by transfer to an account in US Dollars maintained by the payee with a bank.

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 11 (*Taxation*)) any law implementing an intergovernmental approach thereto (any such withholding or deduction, a "**FATCA Withholding**"). No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in US Dollars, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar, the Calculation Agent and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, the Calculation Agent and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Agent, the Registrar, the Calculation Agent or any Transfer Agent and to appoint additional or other Agents, *provided that* the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Calculation Agent, (iv) a Transfer Agent and (v) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(e) **Delay in Payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a Business Day, or if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) **Non-Business Days**: If any date for payment in respect of any Note is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

(g) **Calculation Agent**: The Calculation Agent will cause the amounts of interest, the amounts of principal and any other amount required to be paid hereunder to be calculated and such calculations to be provided to the Issuer, the Trustee and the Agents in the manner contemplated in these Conditions and the Agency Agreement.

11. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Georgia or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note presented for payment:

(a) **Other connection**: by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Georgia other than the mere holding of the Note; or

(b) **Exemption**: by or on behalf of a holder who is able to avoid such taxes, duties, assessments or governmental charges in respect of such Note by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or

(c) **Surrender more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Amounts on surrendering the Certificate representing such Note for payment on the last day of such period of 30 days.

In these Conditions, (i) "**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further surrender of the Certificate representing such Note being made in accordance with these Conditions, such payment will be made, *provided that* payment is in fact made upon such surrender; and (ii) any reference to principal or interest shall be deemed to include any additional amounts that may be payable under these Conditions.

Notwithstanding any other provision of these Conditions or the Trust Deed, any amounts to be paid on the Notes by or on behalf of the Issuer, will be paid net of FATCA Withholding. Neither the Issuer nor any person will be required to pay any additional amounts in respect of FATCA Withholding.

12. ENFORCEMENT EVENTS

Except as described in Condition 6 (*Write Down*), this Condition 12 (*Enforcement Events*) and Condition 16 (*Enforcement*), no remedy shall be available to the Trustee or the Noteholders against the Issuer, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its obligations under or in respect of the Notes or the Trust Deed:

(a) **Non-Payment of Principal**: if the Issuer fails to pay the principal on any of the Notes when due in accordance with Condition 7 (*Optional Redemption*) and such failure to pay is not remedied within five days of the due date for payment, the Trustee may (in accordance with Condition 16 (*Enforcement*)) institute proceedings for the winding-up, insolvency (bankruptcy) or liquidation of the Issuer and/or may prove and/or claim in any consequent winding-up, insolvency (bankruptcy) or liquidation of the Issuer, with the question of whether the Issuer is, as a matter of fact, insolvent or in liquidation being determined in accordance with Applicable Banking Regulations.

(b) **Insolvency**: in the event of the commencement of proceedings for the winding-up, insolvency (bankruptcy) or liquidation of the Issuer (each as determined in accordance with and subject to, Applicable Banking Regulations), the Trustee may (in accordance with Condition 16 (*Enforcement*)) prove and/or claim in the insolvency (bankruptcy) or liquidation of the Issuer and the amount of any claim in respect of a Note shall be its Outstanding Principal Amount together with any accrued and unpaid Interest that has not been Cancelled in accordance with these Conditions.

(c) **Performance Obligations**: the Trustee may (in accordance with Condition 16 (*Enforcement*)) institute such proceedings and/or take any other steps or actions against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Notes or the Trust Deed (other than any payment obligations of the Issuer arising thereunder, including any damages awarded for breach of any obligations, but excluding any amount due to the Trustee in respect of its fees and expenses or any other amounts owing to the Trustee (acting in its capacity as such) (including under any indemnity)),

provided that in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it pursuant to these Conditions and the Trust Deed.

13. PRESCRIPTION

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

14. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (*provided that* the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification or abrogation of any of these Conditions or any provisions of the Trust Deed, other than any modification or abrogation which could be reasonably expected to result in a Capital Event or Tax Event. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in Outstanding Principal Amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the Outstanding Principal Amount of the Notes held or represented, unless the business of such meeting includes, inter alia, consideration of the following proposals: (i) to change any date fixed for payment of principal or interest in respect of the Notes; (ii) to reduce the amount of principal or interest payable on any date in respect of the Notes (other than any such reduction following a Write Down Event); (iii) to alter the method of calculating the amount of any payment in respect of the Notes (except where such alteration is, in the opinion of the Trustee, bound to result in an increase) or the date for any such payment, including, without limitation, by changing or waiving any provision of Condition 10(g) (*Calculation Agent*); (iv) to change the amount of principal and interest payable in respect of the Notes; (v) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other entity; (vi) to change the currency of payments under the Notes; (vii) to change the quorum requirements relating to Noteholders' meetings or the majority required to pass an Extraordinary Resolution; or (viii) to alter the governing law of these Conditions or the Trust Deed; in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of holders of not less than three-quarters in principal amount of the Notes outstanding will for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

The Trustee shall have no obligation to consider whether any Extraordinary Resolution, or proposal sanctioned by any such resolution could result in a Capital Event or Tax Event. If, however, the Issuer certifies to the Trustee that any such Extraordinary Resolution, or proposal sanctioned by any such resolution would result in a Capital Event or a Tax Event (with such certificate appending a legal opinion or legal memorandum from reputable legal counsel confirming that a Capital Event or a Tax

Event will occur or would be reasonably likely to occur) then the Trustee shall be entitled to rely on such certification, opinion or memorandum and any Extraordinary Resolution, or proposal sanctioned by any such resolution shall be deemed not to bind the Trustee to effect its terms.

(b) **Modification of the Trust Deed and Waiver and Determination**: Subject to Condition 15(e) (*Competent Authority Consent Required*), the Trustee may agree with the Issuer, without the consent of the Noteholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or may determine, without any such consent as aforesaid, that any default shall not be treated as such, *provided that*, in any such case, it is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation, waiver or determination shall be binding on the Noteholders and, if the Trustee so requires, such modification, authorisation, waiver or determination shall be notified to the Noteholders as soon as practicable. The foregoing shall be without prejudice to the provisions of Condition 5(b)(v) or Condition 7(l) which, in the circumstances described therein, may require the Trustee to effect amendments upon receipt of certification from the Issuer and without the consent of Noteholders.

Notwithstanding any provision of the Trust Deed, no variation of, or amendments or modifications or any substitution of the Issuer pursuant to these Conditions shall be made or effected if it would result in any Capital Event or a Tax Event. The Trustee shall have no obligation to consider whether any variation of, or amendments or modifications or any substitution of the Issuer pursuant to these Conditions would result in a Capital Event or a Tax Event. If, however, the Issuer certifies to the Trustee that any such variation, amendment, modification or substitution would result in a Capital Event or a Tax Event (with such certificate appending a legal opinion or legal memorandum from reputable legal counsel confirming that a Capital Event or a Tax Event will occur or would be reasonably likely to occur) then the Trustee shall be entitled to rely on such certification, opinion or memorandum and will not agree any such variation, amendment, modification or substitution.

(c) **Substitution**: The Trust Deed contains provisions permitting the Trustee to agree with the Issuer, subject to the conditions provided for in the Trust Deed (including that the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution) and to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any Subsidiary of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree with the Issuer, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed, *provided that* such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders. This condition is without prejudice to the provisions of Condition 7(l) which permit the Issuer, in the circumstances detailed therein, to substitute the Notes without the consent of the Noteholders. Any substitution hereunder or under Condition 7(l) shall be subject to Condition 15(e) (*Competent Authority Consent Required*) below.

(d) **Entitlement of the Trustee**: In connection with the exercise of its trusts, powers, authorities, discretions and other functions (including but not limited to those referred to in this Condition 15(d) (*Entitlement of the Trustee*)) the Trustee shall have regard to the general interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders.

(e) **Competent Authority Consent Required**: Notwithstanding any other provision of these Conditions, any variation of, or amendments or modifications to, these Conditions shall require the prior written approval of the Competent Authority (if required in accordance with Applicable Banking Regulations).

16. ENFORCEMENT

Subject to and in accordance with Condition 12 (*Enforcement Events*), the Trustee may at any time, at its discretion and without further notice, institute such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such proceedings and/or other steps or action unless respectively directed or requested to do so (a) by an Extraordinary Resolution, or (b) in

writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and, in either case, then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities under this Trust Deed to which it may render itself liable or which it may incur by so doing. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing. The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

17. INDEMNIFICATION OF THE TRUSTEE

17.1 The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

17.2 The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any auditors, independent appraiser, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

18. NOTICES

Notices to the holders of Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing, *provided that*, while Notes are held through the Clearing Systems, a notice will be deemed given to the Noteholders if such notice is sent to the Clearing Systems for publication. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20. FURTHER ISSUES

The Issuer may from time to time, with the prior written consent of the Competent Authority (if required), but without the consent of the Noteholders create and issue further securities having the same terms and conditions of the Notes in all respects (or in all respects except the issue price, issue date and/or first payment of interest on such securities) and so that such further issue is consolidated and forms a single series with the Notes or upon such other terms as the Issuer may determine at the time of their issue. References in these conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 20 (*Further Issues*) and forming a single series with the Notes. Any further securities forming a single series with the Notes constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed.

21. GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that the provisions of Conditions 3 (*Status*) and 4 (*Subordination of the Notes*) relating to the status and subordination of the Notes will be governed by, and construed in accordance with, Georgian law.

(b) **Arbitration**: Any dispute which may arise out of or in connection with the Trust Deed or the Notes (including any claim, dispute or difference as to (i) the existence of the Notes, (ii) termination or validity of the Trust Deed or the Notes, (iii) any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes, or (iv) this Condition 21(b) (*Arbitration*) (each, a "**Dispute**") shall be resolved by arbitration in accordance with the LCIA Rules (the "**Rules**") as at present in force and as modified by this Condition 21(b) (*Arbitration*), which Rules shall be deemed to be incorporated by reference into this Condition 21(b) (*Arbitration*). The number of arbitrators shall be three. Each party shall nominate one arbitrator, and the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two party-nominated arbitrators, *provided that*, if such third nomination is not made within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, such nomination shall be made by the LCIA. Any requirement in the Rules to take account of the nationality of a person considered for appointment as an arbitrator shall be disapplied and a person shall be nominated or appointed as an arbitrator (including as Chairman) regardless of his nationality. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) **Waiver of immunity:** To the extent that the Issuer or any of its assets has (on the date of issue of the Notes), or thereafter may acquire, any right to immunity from setoff, legal proceedings, attachment prior to judgement, other attachment or execution of judgement on the grounds of sovereignty or otherwise, the Issuer hereby irrevocably waives any such right to immunity and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever of any order, award or judgment made or given in connection with any proceedings.

(d) **Agent for Service of Process:** The Issuer irrevocably appoints TBC Bank Group PLC at Elder House, St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS, United Kingdom, as its agent in England to receive service of process in any proceedings in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall appoint a new agent for service of process in England and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days.

22. DEFINITIONS

(a) Definitions

"**5-year Mid-Swap Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date:

(i) the rate for the Reset Date of the mid-swap rate for US Dollar swap transactions with a maturity of five years, expressed as a percentage, which appears on the relevant Screen Page as of 11:00 a.m. (New York time) on such Reset Determination Date; or

(ii) if such rate does not appear on the relevant Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate for such Reset Period;

"**5-year Mid-Swap Rate Quotations**" means the arithmetic mean of the bid and offered rates quoted by the Reference Banks at the Relevant Time (calculated on a 30/360 day count basis) of a fixed-for-floating US Dollar interest rate swap transaction which: (A) has a term of five years commencing on the relevant Reset Date; (B) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and (C) has a floating leg (calculated on an Actual/360 day count basis) which is equivalent to three-month LIBOR;

"**30/360**" means, with respect to any period, the number of days in such period to (but excluding) the relevant payment date, divided by 360, calculated on the basis of a year of 360 days with twelve 30-day months;

"**Accounting Currency**" means Georgian Lari or such other primary currency used in the presentation of the Issuer's accounts from time to time;

"**Actual/360**" means, with respect to any period, the actual number of days in such period to (but excluding) the relevant payment date, divided by 360;

"**Additional Amounts**" has the meaning given in Condition 11 (*Taxation*);

"**Additional Tier 1 Capital**" means any or all items constituting additional tier 1 capital in accordance with Applicable Banking Regulations at any time;

"**Additional Tier 1 Instrument**" means any contractually subordinated obligation of the Issuer constituting an additional tier 1 instrument in accordance with the then prevailing Applicable Banking Regulations;

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the relevant circumstances, any economic prejudice or benefit (as applicable) to the holders as a result of the replacement of the 5-year Mid-Swap Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the 5-year Mid-Swap Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)) in each case acting in good faith and in a commercially reasonable manner, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the 5-year Mid-Swap Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or

(iii) if no such customary market usage is recognised or acknowledged, the Independent Financial Adviser or, as the case may be, the Issuer (following consultation with the Independent Financial Adviser (if any)), in each case in its discretion and acting in good faith and in a commercially reasonable manner, determines to be appropriate;

"**Alternative Reference Rate**" means the rate that the Independent Financial Adviser or, as the case may be, the Issuer determines has replaced the 5-year Mid-Swap Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in respect of bonds denominated in US Dollars and of a five year duration, or, if the Independent Financial Adviser or, as the case may be, the Issuer determines that there is no such rate, such other rate as the Independent Financial Adviser or, as the case may be, the Issuer determines in its discretion is most comparable to the 5-year Mid-Swap Rate;

"**Applicable Banking Regulations**" means at any time the laws, regulations delegated or implementing acts, regulatory or implementing technical standards, rules, requirements, guidelines and policies relating to the operation of banking and financial industry and banking and financial services in Georgia, including, without limitation the laws, regulations delegated or implementing acts, regulatory or implementing technical standards, rules, requirements, guidelines and policies related to corporate structure, composition of assets, capital adequacy, resolution and/or solvency then applicable to the Issuer, including, without limitation to the generality of the foregoing, the Law of Georgia No. 121 on Activities of Commercial Banks dated 23 February 1996 (as amended and supplemented from time to time), Order of the President of the National Bank of Georgia No. 100/04 on approval of Regulation on Capital Adequacy Requirements for Commercial Banks dated 28 October 2013, and those regulations, requirements, guidelines and policies relevant for the operation of banking and financial industry and banking and financial services in Georgia, and relating to, *inter alia,* capital adequacy, resolution and/or solvency then in effect of the Competent Authority (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer);

"**Approval Date**" means the date falling 90 days after the Closing Date;

an "**Approval Event**" is deemed to have occurred if the Competent Authority does not issue the Final Conclusion to the Issuer on or prior to the Approval Date;

"**Benchmark Event**" means:

(i) the 5-year Mid-Swap Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the 5-year Mid-Swap Rate stating that it will, by a specified date on or prior to the next Reset Determination Date, cease to publish the 5-year Mid-Swap Rate, permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the 5-year Mid-Swap Rate); or

(iii) a public statement by the supervisor of the administrator of the 5-year Mid-Swap Rate stating that the 5-year Mid-Swap Rate has been or will be, by a specified date on or prior to the next Reset Determination Date, permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor or the administrator of the 5-year Mid-Swap Rate stating that the 5-year Mid-Swap Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case by a specified date on or prior to the next Reset Determination Date; or

(v) it has, or will on or prior to the next Reset Determination Date, become unlawful for the Issuer or the Calculation Agent, as the case may be, to calculate any payments due to be made to the holders using the 5-year Mid-Swap Rate;

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Tbilisi and London;

"**Calculation Agent**" means The Bank of New York Mellon, London Branch and includes any successor calculation agent appointed in accordance with the Agency Agreement;

a "**Capital Event**" is deemed to have occurred if, at any time after the Approval Date, a change in the regulatory classification of the Notes under Georgian law or Applicable Banking Regulations occurs, or the Competent Authority makes a decision, that results (or would result) in any or all of the outstanding Notes that were included in, or counted towards, the Issuer's Tier 1 Capital (on a standalone basis) on the Approval Date ceasing to be included in, or counting towards, the Issuer's Tier 1 Capital (on a standalone basis), *provided that* a Capital Event shall not be deemed to have occurred solely as a consequence of any actual or potential Write Down of any Notes;

"**CET1 Capital**" means the common equity tier 1 capital in accordance with Applicable Banking Regulations at any time, including any applicable transitional, phasing-in or similar provisions;

"**CET1 ratio**" means, at any time, the ratio (expressed as a percentage) of the aggregate amount (in the Accounting Currency) of the CET1 Capital of the Issuer (on a standalone basis) at such time, divided by the Risk-Weighted Assets Amount of the Issuer, at such time, all as calculated by the Issuer;

"**Closing Date**" means 3 July 2019;

"**Competent Authority**" means the National Bank of Georgia or such other successor authority having primary bank supervisory authority with respect to prudential oversight and supervision in relation to the Issuer;

"**Dispute**" has the meaning given to it in Condition 21(b) (*Arbitration*);

"**Distributable Items**" means, in respect of the payment of Interest at any time, those profits and reserves (if any) of the Issuer that are available in accordance with Applicable Banking Regulations for the payment of that Interest at such time;

"**Extraordinary Resolution**" has the meaning given to it in paragraph 1.5 of schedule 4 (*Provisions for Meetings of Noteholders*) to the Trust Deed;

"**Final Conclusion**" means the final written conclusion of the Competent Authority confirming the final approval by the Competent Authority of the Notes as eligible for full inclusion into the own funds (capital) of the Issuer as Additional Tier 1 Capital;

"**First Reset Date**" means 3 October 2024, being the date falling 5 years after the Approval Date;

"**Group**" means the Issuer together with its consolidated Subsidiaries;

"**IA Determination Cut-Off Date**" means no later than five Business Days prior to the relevant Reset Determination Date relating to the next succeeding Reset Date;

"**Independent Financial Adviser**" means an independent financial firm or institution of international repute appointed by the Issuer at its own expense;

"**Interest**" means interest payable on the Notes in accordance with Condition 5 (*Interest*);

"**Interest Cancellation Amount**" means all or such part of the amount of Interest accrued to (but excluding) the Write Down Event Date that is determined by the Competent Authority as necessary to be cancelled (in conjunction with any interest cancellation measures taken in respect of Write Down Instruments which qualify as Additional Tier 1 Capital) in order to immediately remedy a Write Down Event);

"**Interest Payment Date**" means 3 October and 3 April, in each year, with the first Interest Payment Date falling on 3 April 2020;

"**Interest Period**" means the period from and including one Interest Payment Date (or, in the case of the first Interest Period, the Closing Date) to but excluding the next (or first) Interest Payment Date;

"**Interest Rate**" means the rate at which the Notes accrue Interest in accordance with Condition 5 (*Interest*);

"**Law Change**" means any amendment to, or clarification of, or change in, the laws or treaties (or any regulations promulgated thereunder) of a Tax Jurisdiction or any change in the application or official interpretation of such laws or treaties, in either case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which application or interpretation is announced, on or after the date of issue of the Notes;

"**Margin**" means 8.995% per annum;

"**Monetary Damages**" means any amount of financial damages which the Issuer may become liable to pay for failure to perform its obligations under these Conditions;

"**Monetary Damages Cancellation Amount**" means all or such part of the amount of Monetary Damages, if any, accrued to (but excluding) the Write Down Event Date that is determined by the Competent Authority as necessary to be cancelled (in conjunction with any monetary damages cancellation measures taken in respect of any Write Down Instruments which qualify as Additional Tier 1 Capital) in order to immediately remedy a Write Down Event;

"**Ordinary Shares**" means ordinary shares in the capital of the Issuer, each of which confers on the holder one vote at general meetings of the Issuer and is credited as fully paid up;

"**Outstanding Principal Amount**" means, in respect of the Notes, the principal amount of the Notes that are outstanding from time to time;

"**Parent Entity**" means an entity which has control over another entity, for which purposes "control" means the power (whether directly or indirectly) and whether by the ownership of share capital, the possession of voting power, contract or otherwise to appoint the majority of the members of the governing body of management or otherwise to control or exercise significant influence on the affairs and policies, of that other person;

"**Principal Paying Agent**" means The Bank of New York Mellon, London Branch or any successor Principal Paying Agent appointed by the Issuer from time to time and notice of whose appointment is published in the manner specified in Condition 18 (*Notices*);

"**Prospectus**" means the prospectus dated 1 July 2019 relating to the Notes;

"**Public Sector**" means the government of, or a governmental agency or the central bank in, the country of incorporation of the Issuer;

"**Qualifying Additional Tier 1 Notes**" means securities that comply with the following:

(i) are issued by the Issuer;

(ii) rank equally with the ranking of the Notes;

(iii) have terms not materially less favourable to Noteholders than the terms of the Notes (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing);

(iv) (without prejudice to (iii) above) (A) contain terms such that they comply with the applicable regulatory capital requirements in relation to Additional Tier 1 Capital pursuant to Applicable Banking Regulations; (B) bear the same rate of interest from time to time applying to the Notes and preserve the same Interest Payment Dates; (C) have the same redemption rights as the Notes; (D) have the same Outstanding Principal Amount as the Notes; and (E) preserve any existing rights to any accrued and unpaid Interest and any other amounts payable under the Notes which has accrued to Holders and has not been paid;

(v) are listed on the same stock exchange or market (if any) as the Notes; and

(vi) where the Notes which have been substituted or varied had a published rating solicited by the Issuer from one or more Rating Agencies immediately prior to their substitution or variation, benefit from (or will, as announced by each such Rating Agency, benefit from) an equal or higher published rating from each such Rating Agency as that which applied to the Notes;

"**Rating Agencies**" means Moody's Investors Service and its successors, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies and its successors, and Fitch Ratings and its successors, and "**Rating Agency**" shall be construed accordingly;

"**Redemption Price**" means, per Note, the Outstanding Principal Amount of such Note plus, if applicable, where not cancelled pursuant to, or otherwise subject to the limitations on payment set out in Condition 5 (*Interest*), an amount equal to accrued and unpaid Interest for the then current Interest Period to (but excluding) the date fixed for redemption of the Notes;

"**Reference Banks**" means five leading swap dealers, as selected and appointed by the Issuer on the advice of an Independent Financial Adviser and notified to the Calculation Agent;

"**Registrar**" means The Bank of New York Mellon SA/NV, Luxembourg Branch and any successor registrar appointed in accordance with the Agency Agreement;

"**Relevant Distributions**" means, on any Interest Payment Date, the sum of:

(i) any Interest payments on the Notes made or scheduled to be made by the Issuer in the then current financial year of the Issuer; and

(ii) any interest payments or distributions made or scheduled to be made by the Issuer on other instruments qualifying as Additional Tier 1 Capital in the then current financial year of the Issuer;

"**Relevant Nominating Body**" means, in respect of the 5-year Mid-Swap Rate:

(i) the central bank or other supervisory authority which is responsible for supervising the administrator of the 5-year Mid-Swap Rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of the central bank or other supervisory authority which is responsible for supervising the administrator of the 5-year Mid-Swap Rate;

"**Relevant Time**" means, with respect to a Reset Determination Date, at or around 11:00 a.m. (New York time) on such Reset Determination Date;

"**Reset Date**" means the First Reset Date and every fifth anniversary thereof;

"**Reset Determination Date**" means, in relation to each Reset Date, the second Business Day immediately preceding such Reset Date;

"**Reset Period**" means the period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date;

"**Reset Reference Bank Rate**" means, in relation to a Reset Date and the Reset Period commencing on that Reset Date, the percentage determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reference Banks to the Calculation Agent at the Relevant Time. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the

Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate in respect of the relevant Reset Date will be the last observable mid-swap rate for US Dollar swaps with a maturity of five years which appears on the Screen Page, as determined by the Calculation Agent;

"**Risk-Weighted Assets Amount**" means at any time, the aggregate amount (in the Accounting Currency) of the risk-weighted assets of the Issuer (on a standalone basis) calculated in accordance with Applicable Banking Regulations at such time;

"**Screen Page**" means the Reuters screen page "ICESWAP1" or such other page as may replace that page on that information service, or on such other equivalent information service as may be nominated by the person providing or sponsoring such information, for the purpose of displaying equivalent or comparable rates to the 5-year Mid-Swap Rate;

"**Subsidiary**" means, in relation to any person at any time, any other person (whether or not now existing) which is controlled directly or indirectly, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned by the first person and/or any one or more of the first persons' Subsidiaries, and "control" means the power (whether directly or indirectly) and whether by the ownership of share capital, the possession of voting power, contract or otherwise to appoint the majority of the members of the governing body of management or otherwise to control or exercise significant influence on the affairs and policies, of that other person;

"**Successor Rate**" means the rate that the Independent Financial Adviser or, as the case may be, the Issuer determines is a successor to, or replacement of, the 5-year Mid-Swap Rate which is formally recommended by any Relevant Nominating Body;

a "**Tax Event**" is deemed to have occurred if any Law Change occurs, and in any such case, whereby the Issuer determines that it:

(i) would not be entitled to claim a deduction in computing taxation liabilities in a Tax Jurisdiction in respect of any Interest payment to be made on the next Interest Payment Date or the value of such deduction to the Issuer would be reduced; and/or

(ii) would be required to pay Additional Amounts on the next Interest Payment Date pursuant to Condition 11 (*Taxation*),

and, in each case, this cannot be avoided by the Issuer taking reasonable measures available to it;

"**Tax Jurisdiction**" means Georgia or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes;

"**Tier 1 Capital**" means the tier 1 capital in accordance with Applicable Banking Regulations at any time, including any applicable transitional, phasing-in or similar provisions;

"**Tier 2 Instrument**" means any subordinated obligation of the Issuer constituting a Tier 2 instrument in accordance with Applicable Banking Regulations;

"**Transfer Agent**" means The Bank of New York Mellon, London Branch or any successor transfer agent appointed by the Issuer from time to time and notice of whose appointment is published in the manner specified in Condition 18 (*Notices*);

a "**Trigger Event**" is deemed to have occurred if, at any time, as determined by the Issuer, the Competent Authority or an agent appointed by the Competent Authority, the CET1 ratio is less than 5.125 per cent.;

a "**Viability Event**" means a circumstance and/or event, when (a) in accordance with Applicable Banking Regulations; and/or (b) in the determination of the Competent Authority:

(i) a Write Down of the Notes and a write down of any Write Down Instruments, without which the Issuer would become non-viable (as determined in accordance with Applicable Banking Regulations), is necessary; and/or

(ii) a public sector injection of capital, or equivalent support, without which the Issuer would have become non-viable (as determined in accordance with Applicable Banking Regulations), is necessary; and/or

(iii) any other event or circumstance has occurred which is specified as constituting the non-viability (as determined in accordance with Applicable Banking Regulations) of the Issuer by the Competent Authority or in Applicable Banking Regulations;

"**Waived Set-Off Rights**" means any and all rights of or claims of any Noteholder for deduction, set-off, netting, compensation, retention or counterclaims arising directly or indirectly under or in connection with any Note;

"**Write Down Amount**" means all of the Outstanding Principal Amount of the Notes, or such part only as may be determined by the Competent Authority as necessary to be Written Down (in conjunction with any Interest Cancellation Amount, Monetary Damages Cancellation Amount and any other write down or conversion of, or other write down measures taken in respect of, Write Down Instruments which qualify as Additional Tier 1 Capital) in order to immediately remedy a Write Down Event in accordance with Condition 6(k);

"**Write Down Event**" means the occurrence of a Trigger Event or a Viability Event;

"**Write Down Event Notice**" means a notice which shall be given by the Issuer to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders pursuant to Condition 6.2 and which shall state that the Write Down Event has occurred and provide reasonable details of the event(s) triggering such Write Down Event;

"**Write Down Instruments**" means any obligation (other than the Notes) incurred directly or indirectly by the Issuer which (a) in the case of the insolvency of the Issuer (determined in accordance with Applicable Banking Regulations) ranks or is expressed to rank *pari passu* with the Notes, (b) any Additional Tier 1 Instrument of the Issuer, and (c) contains provisions analogous to those in Condition 5 (*Interest*) with respect to obligations qualifying as Additional Tier 1 Capital and Condition 6 (*Write Down*) relating to cancellation of interest and monetary damages and a write down of the principal amount of such instrument or which otherwise permit or require the cancellation of interest and monetary damages and write down of such instrument and in respect of which the conditions (if any) to the operation of such provisions are (or with the giving of any certificate or notice which is capable of being given by the Issuer, would be) satisfied;

"**Write Down Measures**" means an Interest Cancellation Measure, a Monetary Damages Cancellation Measure and/or a Principal Write Down Measure;

"**Write Down Measure Effective Date**" means the date as of which the Write Down Measures become effective, which is specified in the Write Down Measure Notice and which shall occur on or prior to the date falling 30 Business Days after the occurrence of the Write Down Event; and

"**Write Down Measure Notice**" means a notice which shall be given by the Issuer to the Trustee, the Principal Paying Agent, the Calculation Agent and the Noteholders pursuant to Condition 6(b) and which shall specify with reasonable detail (i) the Write Down Measure Effective Date; and (ii) the Write Down Measures being implemented, including any Interest Cancellation Amount, any Monetary Damages Cancellation Amount and any Write Down Amount, and the basis of their calculation.

(b) References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or in accordance therewith or under or in accordance with such modification or re-enactment.

OVERVIEW OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Initial Issue of Certificates

The Regulation S Notes shall be represented by a permanent Regulation S Global Certificate, in fully registered form without interest coupons, deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes shall be represented by a permanent Rule 144A Global Certificate, in fully registered form without interest coupons, deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Upon the registration of the Regulation S Global Certificate in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the Regulation S Global Certificate to the common depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Regulation S Global Certificate.

Upon the registration of the Rule 144A Global Certificate in the name of Cede & Co. as nominee of DTC and delivery of the Rule 144A Global Certificate to the custodian for DTC, DTC will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid as represented by the Rule 144A Global Certificate.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note represented by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

Exchange for Definitive Certificates

The following will apply in respect of transfers of Notes held in DTC, Euroclear or Clearstream, Luxembourg. These provisions will not prevent the trading of interests in the Notes within a clearing system while they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by a Global Certificate pursuant to Condition 2(a) (*Transfer*) may only be made in whole, but not in part:

(a) (in the case of the Rule 144A Global Certificate) if DTC (or any other clearing system as shall have been designated by the Issuer and approved in writing by the Trustee ("**Alternative Clearing System**") on behalf of which the Notes evidenced by the Rule 144A Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available, by the holder giving notice to the Registrar or the Transfer Agent of its intention to exchange the Rule 144A Global Certificate for Rule 144A Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice;

(b) (in the case of the Regulation S Global Certificate) if either Euroclear or Clearstream, Luxembourg (or any Alternative Clearing System on behalf of which the Notes evidenced by the Regulation S Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available, by the holder giving notice to the Registrar or the Transfer Agent, of its intention to exchange the Regulation S Global Certificate for Regulation S Definitive Certificates on or after the Exchange Date (as defined below) specified in the notice; or

(c) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 11 (*Taxation*) which would not be suffered were the Notes in definitive form and a note to such effect signed by two Directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders, of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date specified in the notice.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Amendment to Conditions

The Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is an overview of certain of those provisions:

(a) Payments

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

(b) Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificates shall (unless the Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each US$1,000 in principal amount of the Notes.

(c) Trustee's Powers

In considering the interests of Noteholders while the Global Certificates are held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

(d) Notices

Notwithstanding Condition 18 (*Notices*), for so long as a Global Certificate is held on behalf of DTC, Euroclear and Clearstream, Luxembourg, notices to holders of Notes represented by a Global Certificate may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg. Any such notice shall be deemed to be given to the holders of the Notes on the day on which such notice is delivered to DTC, Euroclear, Clearstream, Luxembourg, provided that, for so long as the Notes are listed and admitted to trading on Euronext Dublin, notices will also be filed at the Companies Announcements Office of Euronext Dublin.

(e) Cancellation

Cancellation of any Note required by the Conditions to be cancelled will be effected by reduction in the principal amount of the applicable Global Certificate.

(f) Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act.

CLEARING AND SETTLEMENT

Book-Entry Procedures for the Global Certificates

Custodial and depository links are to be established between DTC, Euroclear or Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership*" and "*—Settlement and Transfer of Notes*".

Investors may hold their interests in the Global Certificates directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Overview of Provisions relating to the Notes in Global Form—Exchange for Definitive Certificates*", DTC will surrender the Rule 144A Global Certificate for exchange for individual Rule 144A Definitive Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Certificate representing the Regulation S Notes will have an ISIN, a Common Code and a CFI code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42A, Avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg.

DTC

The Rule 144A Global Certificate representing the Rule 144A Notes will have an ISIN, a Common Code and a CUSIP number and will be deposited with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, NY 10041, United States.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 p.m. (New York time) on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Rule 144A Global Certificate will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m. (Brussels or Luxembourg time) one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg, or their respective Direct or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the U.S. Exchange Act, trades in the United States secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

TAXATION

The following is a general description of certain material United States Federal and Georgian tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in the United States, Georgia or elsewhere. Prospective purchasers of the Notes should consult their tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This overview is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

United States Federal Income Tax Considerations Relating to the Notes

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a U.S. Holder of the Notes. For purposes of this summary, a "U.S. Holder" means a person that for U.S. federal income tax purposes is a beneficial owner of a Note and is a domestic corporation or is otherwise subject to U.S. federal income tax on a net income basis in respect of the Notes. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In particular, the summary deals only with holders that will acquire Notes as part of the initial offering and will hold them as capital assets. It does not address all the tax consequences that may apply to U.S. Holders that are individuals or holders subject to special tax rules, such as banks, insurance companies, dealers in securities, persons that own or are deemed to own 10% or more of our voting shares or 10% or more of the total value of all classes of the Issuer's shares, tax-exempt entities, certain financial institutions, traders in securities that elect to use the mark-to-market method of accounting for their securities, persons who are required to include certain items of revenue in income no later than when such item is taken into account in their financial statements, partnerships or other passthrough entities that hold the Notes or investors therein, or persons that hedge their exposure in the Issuer's securities or will hold the Notes as a position in a "straddle" or "conversion" transaction or as part of a "synthetic security" or other integrated financial transaction.

Moreover, this discussion does not address any tax consequences relating to the alternative minimum tax, the Medicare tax on investment income or any U.S. federal tax consequences (such as estate or gift tax consequences) other than U.S. federal income tax consequences. This discussion does not address U.S. state, local and non-U.S. tax consequences. This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and official interpretations thereof, in each case as of the date hereof, changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein, possibly with retroactive effect.

Potential investors should consult their tax advisers with respect to the U.S. federal, state, local and non-U.S. tax consequences of acquiring, owning or disposing of the Notes in their particular circumstances and the possible effects of any changes in applicable tax laws.

U.S. Holders

Tax Treatment of Payments on the Notes

The Notes will be treated as equity of the Issuer for U.S. federal income tax purposes. Accordingly, payments of stated interest on the Notes will be treated as distributions on the stock of the Issuer and as dividends to the extent paid out of the current or accumulated earnings and profits of the Issuer, as determined under U.S. federal income tax principles. Because the Issuer does not expect to maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions paid to U.S. Holders generally will be reported as dividends.

Payments received by a U.S. Holder that are treated as dividends generally will be foreign-source income and will not be eligible for the dividends-received deduction applicable to corporate U.S. Holders.

Sale, Exchange or Redemption of the Notes

Subject to the discussion below under "*PFIC Rules,*" a U.S. Holder will recognise capital gain or loss upon the sale, exchange, redemption or other disposition of Notes in an amount equal to the difference between

the amount realised on such disposition and the U.S. Holder's adjusted tax basis in the Notes. A U.S. Holder's tax basis in a Note generally will be the price paid for the Note. Gain or loss recognised upon a sale or other disposition of the Notes by a U.S. Holder will generally be U.S. source capital gain or loss, and generally will be long-term capital gain or loss if the Notes are held for more than one year. The deductibility of capital losses is subject to limitations.

Write-Down of the Notes

No statutory, judicial or administrative authority directly addresses the U.S. federal income tax treatment of a write-down of the Notes. Among other matters, there is no authority addressing whether U.S. holders would be entitled to a deduction for loss at the time of a write-down. U.S. holders may, for example, be required to wait to take a deduction until there is an actual or deemed sale, exchange or other taxable disposition of the Notes. A U.S. Holder should consult its tax advisor to determine the U.S. federal income tax consequences to it of a write-down of the Notes.

Substitution and Variation of the Notes

The terms of the Notes provide that, in certain circumstances, the Issuer may substitute the Notes or vary the terms of the Notes. Any such substitution or variation might be treated for U.S. federal income tax purposes as a deemed disposition of the Notes by a U.S. Holder in exchange for the new substituted or varied notes. As a result of this deemed disposition, a U.S. Holder could be required to recognise capital gain or loss for U.S. federal income tax purposes.

PFIC Rules

Special U.S. federal income tax rules apply to U.S. persons owning shares of a "passive foreign investment company," or "PFIC." The Issuer will be a PFIC for any taxable year if either: (a) at least 75% of its gross income is "passive income" for purposes of the PFIC rules or (b) at least 50% of the value of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income. For this purpose, the Issuer will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income; however, under proposed U.S. Treasury regulations and Notice 89-81 from the IRS, special rules apply to income derived in the active conduct of a banking, financing or similar business. Based on the composition of the Issuer's income and assets for 2018, the Issuer believes that it was not a PFIC for U.S. federal income tax purposes with respect to its 2018 taxable year. In addition, based on the Issuer's current expectations regarding the value and nature of its assets and the sources and nature of its income, the Issuer does not anticipate becoming a PFIC for the 2019 taxable year or in the foreseeable future. This is a factual determination, however, that depends on, among other things, the composition of the income and assets, and the market value of the shares and assets, of the Issuer and any subsidiaries that must be made annually after the close of each taxable year. In addition, the application of the special rules to income derived in the active conduct of a banking, financing or similar business is not entirely clear, and the proposed U.S. Treasury regulations may not be finalised in their current form. Therefore, there can be no assurance that the Issuer will not be classified as a PFIC for the current taxable year or for any future taxable year.

If the Issuer is treated as a PFIC for any year during which a U.S. Holder owns the Notes, the U.S. Holder may be subject to adverse tax consequences upon a sale, exchange, or other disposition of the Notes, or upon the receipt of certain "excess distributions" in respect of the Notes. Dividends paid by a PFIC are not qualified dividends eligible to be taxed at preferential rates. Under the PFIC rules, if the Issuer were a PFIC at any time that a U.S. Holder holds the Notes, the Issuer would continue to be a PFIC with respect to such investment unless (i) the Issuer ceased to be a PFIC and (ii) the U.S. Holder made a "purging" election under the PFIC rules.

Specified Foreign Financial Assets

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of USD 50,000 are generally required to file an information statement along with their tax returns, currently on Internal Revenue Service Form 8938, with respect to such assets. "Specified foreign financial assets"

include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the Notes) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Backup Withholding and Information Reporting

Payments on the Notes or sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be are subject to information reporting and to backup withholding unless (1) the U.S. Holder is a corporation (other than a S corporation) or other exempt recipient or (2) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that the U.S. Holder is not subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

Possible FATCA Consequences Relating to the Notes

As a result of FATCA and related intergovernmental agreements, holders of Notes may be required to provide information and tax documentation regarding their identities as well as that of their direct and indirect owners. It is also possible that payments on the Notes may be subject to a withholding tax of 30% to the extent such payments are considered to be "foreign passthru payments." Regulations defining "foreign passthru payments" have not yet been adopted or proposed and the IRS has indicated in proposed regulations that any such regulations would not be effective for payments made prior to two years after the date on which final regulations on this issue are published. It is unclear to what extent (if any) payments on securities such as the Notes would be considered "foreign passthru payments" or to what extent (if any) passthru payment withholding may be required under intergovernmental agreements. The Issuer will not pay additional amounts on account of any withholding tax imposed by FATCA. FATCA is particularly complex and its application to the Issuer, the Notes, and the holders of the Notes is uncertain at this time. Investors are encouraged to consult with their tax advisors regarding the possible implications of FATCA for this investment.

Georgian Taxation

The analysis below is a general overview of certain Georgian tax implications related to the Notes prepared in accordance with Georgian tax legislation as of the date of this Prospectus. As with other areas of Georgian legislation, tax law and practice in Georgia is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that changes may be made in the law or in the current interpretation of the law or current practice, including changes that could have a retroactive effect. Accordingly, it is possible that payments to be made to the Noteholders could become subject to taxation in Georgia, or that rates currently in effect with respect to such payments could be increased, in ways that cannot be anticipated as of the date of this Prospectus. Each prospective purchaser of Notes should also consider any further tax implications that may be relevant to it under the laws and regulations of other countries in connection with its purchase, holding and sale of Notes.

Furthermore, the analysis below relates to Notes listed on a "recognised stock exchange of the foreign country" under Georgian law, such as Euronext Dublin. It does not address tax issues arising from any future listing of the Notes on an exchange in Georgia, or another country that is not a "recognised stock exchange of the foreign country" under Georgian law, for which a prospective purchaser of Notes should consult its tax advisors.

Withholding Tax on Interest

Payments of interest on Notes will be exempt from withholding tax and such payments of interest shall not be included in the gross taxable income of Noteholders, so long as the Notes are issued by the Georgian resident and listed and admitted to trading on a "recognised stock exchange of the foreign country". For

these purposes, Euronext Dublin is a "recognised stock exchange of the foreign country" under Georgian law.

Deductibility of Interest

The interest paid on the facilities, loans, bonds, notes or other obligations proceeds of which are used to fund the Issuer's business activities is regarded as cost related to the economic activity of the Issuer and is deductible from the Issuer's gross income for the purpose of computing the Issuer's tax liabilities. The deduction is subject to the percentage of such interest within the threshold of allowable percentage of deductible interest established from time to time by the order of the Minister of Finance of Georgia. Currently, such threshold is defined by Order No. 34 of the Minister of Finance dated 28 January 2011 and equals 24 per cent.

Enforceability of Tax Gross-up under the Terms and Conditions of the Notes

Pursuant to Condition 8 (*Taxation*), in the case of withholding or deduction of any taxes (subject to certain customary exceptions) in respect of any payment on the Notes, the Issuer is required to increase the amount of the relevant payment by such amount as would result in the receipt by the relevant Noteholder of the amount which would have been received by it had no such withholding or deduction been required. The Tax Code neither prohibits nor permits the inclusion of tax gross-up clauses (such as that set out in Condition 8 (*Taxation*)) in agreements or instruments made by Georgian companies. In practice, however, such gross-up provisions are widely respected by the tax authorities in Georgia.

Taxation of Sale of Notes by Non-Resident Legal Entity Noteholders

Non-resident legal entities will be assessed profit tax on the difference between the initial purchase and subsequent sale price and the relevant non-resident entity will be under an obligation to properly report and pay such profit tax to the Georgian tax authorities at a 15% tax rate. If the sale is carried out through a Georgian brokerage company and the seller is not registered as a taxpayer in Georgia, such brokerage company may be responsible for withholding the applicable tax at a 10% rate or at a 15% rate if the seller is registered in an offshore jurisdiction. However, the actual applicability of this taxation regime is subject to considerable impracticability and lack of enforceability, which may, in limited circumstances, lead to the adoption of peculiar and, at times, rather aggressive interpretations by the tax authorities. The applicability of Georgian profit tax may be affected by a double tax treaty between Georgia and the country of residency of the selling entity.

Taxation of Sale of Notes by Resident Legal Entity Noteholders

Georgian resident legal entities (except commercial banks, credit unions, insurance companies, microfinance organisations and persons registered as loan issuers, until 1 January 2023) will be subject to a 15% corporate profit tax on any gain (the difference between initial purchase and subsequent sale price) received from the disposal of the Notes after they distribute profit.

Until 1 January 2023, the gain received from the sale of the Notes (i.e. the difference between the initial purchase price and the subsequent sale price of the Notes) by commercial banks, credit unions, insurance companies, microfinance organisations and persons registered as loan issuers will be included in their gross taxable income and, after the permitted deductions, will be subject to profit tax at the rate of 15%.

See "*Risk Factors—Macroeconomic and Political Risks Related to Georgia—Uncertainties in the tax system in Georgia may result in the imposition of tax adjustments or fines against TBC and there may be changes in current tax laws and policies*".

Value Added Tax

Sales (supply) of the Notes are exempt from value added tax in Georgia.

Other Considerations

The Tax Code expressly provides for ability of the tax inspection to re-examine the transaction price indicated by the respective parties, subject to certain procedural requirements.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes, by purchasing such Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It is (i) a QIB; (ii) acquiring the Notes for its own account or for the account of one or more QIBs; (iii) not acquiring the Notes with a view to further distribute such Notes; and (iv) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(b) It understands that such Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or otherwise transferred except (i) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (ii) in reliance on Rule 144A to a person that the holder and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of another QIB; (iii) in an offshore transaction in accordance with Regulation S; (iv) pursuant to Rule 144 under the U.S. Securities Act (if available); or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, in each case, in accordance with any applicable securities laws of any state of the United States.

(c) It acknowledges that the Notes offered and sold hereby in the manner set forth in paragraph (a) are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act and are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Notes.

(d) It understands that any offer, sale, pledge or other transfer of such Notes made other than in compliance with the above-stated restrictions may not be recognised by the Issuer.

(e) It understands that such Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE U.S. SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT ("**REGULATION S**") OR (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RESALES OF THIS NOTE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED.

(f) If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(g) It understands that the Notes offered in reliance on Rule 144A will be represented by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Regulation S Notes

Each purchaser of Regulation S Notes, by purchasing such Notes, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

(a) It understands that such Notes have not been and will not be registered under the U.S. Securities Act, and such Notes are being offered and sold in accordance with Regulation S.

(b) It or any person on whose behalf it is acting is, or at the time such Notes are purchased will be, the beneficial owner of such Notes and (i) it is purchasing such Notes in an offshore transaction (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(c) It will not offer, sell, pledge or otherwise transfer Notes, except in accordance with the U.S. Securities Act and any applicable securities laws of any state of the United States. Any purported purchase of a Note (or an interest therein) that does not comply with the foregoing shall be null and void *ab initio*.

(d) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT.

(e) The Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

(f) It understands that the Notes offered in reliance on Regulation S will be represented by the Regulation S Global Certificate. Before any interest in the Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, it will be required to provide the Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

ERISA AND CERTAIN OTHER UNITED STATES CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which any of the Issuer, the Joint Lead Managers or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a party in interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the plan, provided that there is adequate consideration for the transaction), Prohibited Transaction Class Exemption ("**PTCE**") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes (or any interest in a Note), each purchaser (whether in the case of the initial purchase or in the case of a subsequent transfer) will be deemed to have represented and agreed that either (i) it is not and, for so long as it holds a Note (or any interest therein), will not be a Plan, an entity whose underlying assets include, or are deemed to include, the assets of any such Plan (each of the foregoing, a "**Benefit Plan Investor**"), or a governmental, church or non-U.S. plan which is subject to any U.S. federal, state, local or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its acquisition, holding and disposition of the Notes (or any interest therein) will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available (or, in the case of such a governmental, church or non-U.S. plan, a violation of any such substantially similar U.S. federal, state, local or non-U.S. law). Any purported purchase of a Note (or an interest therein) that does not comply with the foregoing shall be null and void ab initio.

Governmental plans as defined in Section 3(32) of ERISA, certain church plans as defined in Section 3(33) of ERISA and non-U.S. plans as described in Section 4(6)(4) of ERISA, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state, local, other federal or non-U.S. laws that are substantially similar to ERISA and Section 4975 of the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of Notes to a Plan is in no respect a representation by the Issuer, the Joint Lead Managers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

SUBSCRIPTION AND SALE

Each of the Joint Lead Managers has, pursuant to a subscription agreement dated 1 July 2019 (the "**Subscription Agreement**"), severally (and not jointly) agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at the issue price of 100%. The Issuer has agreed to pay to the Joint Lead Managers a total combined management and underwriting and selling concession in respect of the Notes. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes and to indemnify them in respect of certain losses. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer.

General

Other than the approval of this Prospectus by the Central Bank of Ireland, no action has been or will be taken in any jurisdiction by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of any offering material (including, without limitation, roadshow materials and investor presentations) in relation thereto, in any country or jurisdiction where action for that purpose is required, other than in Georgia as set forth in this Prospectus.

The Joint Lead Managers have advised the Issuer that they currently intend to make a market in the Notes. However, they are not obliged to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Issuer cannot provide any assurances to Noteholders as to the liquidity of or the trading market for the Notes.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received customary fees and expenses.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S.

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed that:

(a) neither it nor any of its affiliates (including any person acting on behalf of such Joint Lead Manager or any of its affiliates) has engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S; and

(b) neither it nor any of its affiliates, nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the U.S. Securities Act) in connection with any offer and sale of the Notes in the United States.

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented, warranted and undertaken that it has offered and sold and will offer and sell the Notes in the United States only to persons whom it reasonably believes are QIBs which can represent that (A) they are QIBs within the meaning of Rule 144A; (B) they are not broker-dealers which own and invest on a discretionary basis less than US$ 10,000,000 in securities of unaffiliated issuers; (C) they are acting for their own account, or the account of one or more QIBs; (D) they are not formed for the purpose of investing in Notes or the Issuer; (E) each account for which they are purchasing will hold and transfer at least US$ 100,000 in principal amount of Notes at any time; (F) they understand that the Issuer may receive a list of participants holding

positions in its securities from one or more book-entry depositories; and (G) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

Offers and sales of the Notes in the United States will be made by those Joint Lead Managers or their affiliates that are registered broker-dealers under the U.S. Exchange Act, or in accordance with Rule 15a-6 thereunder. To the extent that the Joint Lead Managers intend to effect any sales of the Notes in the United States, they will do so through their respective U.S. broker-dealer affiliates, or one or more U.S. registered broker-dealers or as otherwise permitted by applicable United States law.

Each Joint Lead Manager may, through its respective U.S. registered broker-dealer affiliates, arrange for the offer and resale of the Notes in the United States only to QIBs in accordance with Rule 144A.

TBC Capital LLC is a non-U.S. bank or dealer that is not registered as a broker-dealer under Section 15 of the U.S. Securities Act, and has therefore agreed that, while acting as a Joint Lead Manager in respect of the offering of the Notes and in any event during the term of the Subscription Agreement, it will not, directly or indirectly, make use of any U.S. mails or any means or instrumentality of interstate commerce to effect transactions in, or induce or attempt to induce the purchase or sale of, any securities except for transactions in compliance with Rule 15a-6 under the U.S. Exchange Act or as otherwise permitted by Section 15 of the U.S. Securities Act and the rules and regulations thereunder.

"**Affiliate of**" or a person "**affiliated with**" means a person that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified (*provided that*, in the case of TBC Capital LLC, it shall not be deemed to include the Issuer).

Terms used in this section and not defined herein have the meanings given to them by Regulation S under the U.S. Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Georgia

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed that the Notes shall not be advertised, marketed, offered or sold in the territory of Georgia in a public offering other than in accordance with the Securities Market Law and as set forth below. A "public offering" is defined as an offer to sell securities directly or indirectly on behalf of an issuer or other person to at least 100 persons or to an unspecified number of persons. Offering and sale of the Notes to sophisticated investors (as defined in the Securities Market Law) only, however, will not constitute a public offering.

After the admission of the Notes to the Official List and trading on the Regulated Market, the Notes may be offered in Georgia in a public offering and an application may be made to list the Notes on the GSE. In

the event that the Notes of the Issuer are placed/listed on Euronext Dublin, which is a "recognised stock exchange of the foreign country", the Notes may be offered in Georgia in a public offering without approval of this Prospectus by the NBG, provided that the NBG is notified about the public offering of the Notes in accordance with Georgian law and the International Securities Identification Number (ISIN) of the Notes, as well as evidence of listing of the Notes on Euronext Dublin, is provided to the satisfaction of the NBG in advance of the offering in Georgia. The GSE needs an approval of the NBG to list the Notes.

The Notes are not intended to be offered or sold and should not be offered or sold to any natural person for the purpose of Applicable Banking Regulations.

Without limitation of any of the foregoing, each Joint Lead Manager has severally (and not jointly or jointly and severally) represented, warranted and agreed that it has complied and will comply with all applicable provisions of Georgian law with respect to anything done by it in relation to the Notes in, from or otherwise involving Georgia.

Switzerland

Each Joint Lead Manager has severally (and not jointly or jointly and severally) agreed that the Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Issuer or the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

Russian Federation

Each of the Joint Lead Managers has severally (and not jointly or jointly and severally) represented and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Joint Lead Managers may distribute this Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement or offering of the Notes in the Russian Federation (each as defined in Russian securities laws) and may sell the Notes to Russian persons in a manner that does not constitute "offering", "placement" or "circulation" of the Notes in the Russian Federation (as defined in Russian securities laws) and otherwise not in breach of Russian law.

Azerbaijan

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented, warranted and agreed that it has not offered or sold and will not offer or sell the Notes to any person in Azerbaijan, other than as permitted under the laws of Azerbaijan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(a) an "**Exempt Offer**" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Singapore

Each Joint Lead Manager has severally (and not jointly or jointly and severally) acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in the Securities and Futures Act) pursuant to Section 274 of the Securities and Futures Act, (ii) to a relevant person (as defined in Section 275(2) of the Securities and Futures Act) pursuant to Section 275(1) of the Securities and Futures Act, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each, as defined in Section 2(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Any reference to the Securities and Futures Act is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the Securities and Futures Act or any provision in the Securities and Futures Act is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Hong Kong

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Turkey

The issuance of the Notes has not been approved by the Turkish Capital Markets Board and the Notes are not being publicly offered or sold in Turkey. This Prospectus is not intended to be a public offering, advertisement, promotion or solicitation of the Notes or any interests therein. No transaction that may be deemed to be a public offering or otherwise a sale of the Notes (or beneficial interests therein) in Turkey by may be engaged in. Pursuant to Article 15(d)(ii) of Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time), there is no restriction on the purchase or sale of the Notes (or beneficial interests therein) by residents of Turkey, provided that they purchase or sell such Notes (or beneficial interests therein) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to Capital Markets Board regulations and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions when purchasing the Notes (or beneficial interests therein) and transfer the purchase price through banks.

General

Each Joint Lead Manager has severally (and not jointly or jointly and severally) represented, warranted and agreed that, to the best of its knowledge and belief, it will comply with all applicable laws, regulations and directives in each country or jurisdiction in which it offers, sells or delivers Notes or has in its possession or distributes this Prospectus or any related offering material, in all cases at its own expense. Other persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any related offering material, in all cases at their own expense.

LEGAL MATTERS

Certain legal matters with respect to the offering of the Notes will be passed upon for the Issuer in respect of English and United States federal law by Baker & McKenzie LLP, and in respect of Georgian law by Dentons Georgia LLC.

Certain legal matters with respect to the offering of the Notes will be passed upon for the Joint Bookrunners in respect of English law by Latham & Watkins (London) LLP, in respect of United States federal law by Latham & Watkins LLP, and in respect of Georgian law by BGI Advisory Services Georgia LLC (BGI Legal).

INDEPENDENT AUDITORS

TBC's Audited Consolidated Financial Statements as of and for the years ended 31 December 2018, 2017 and 2016 included in this Prospectus have been audited by PricewaterhouseCoopers Georgia LLC, independent auditors, as stated in their audit report appearing herein.

The Unaudited Consolidated Interim Financial Statements have been reviewed by PricewaterhouseCoopers Georgia LLC in accordance with professional standards for review of such information. Its report dated 16 May 2019 appearing herein states that it did not audit and does not express an opinion on the Unaudited Consolidated Interim Financial Statements. Accordingly, the degree of reliance on its review report should be restricted in light of the limited nature of the review procedures applied.

PricewaterhouseCoopers Georgia LLC is a limited liability company incorporated under the laws of Georgia, with its registered office at 12 M. Aleksidze Street, King David Business Center, 7th Floor, Tbilisi 0171, Georgia, and included in the register of audit firms maintained by the Georgian Federation of Professional Accountants and Auditors, with identification number 405220611.

GENERAL INFORMATION

1. Listing

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the regulated market of Euronext Dublin. It is expected that listing of the Notes will take place and that dealings in the Notes on the Regulated Market will commence on or about 3 July 2019. Arthur Cox Listing Services is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the Regulated Market. The expenses in relation to the admission of the Notes to trading on the Regulated Market will be approximately €8,000. In addition, an application may be made to list the Notes on the GSE.

2. Approval of the Prospectus

This Prospectus has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive. Such approval relates only to Notes, which are to be admitted to trading on the Regulated Market. The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

3. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in Georgia in connection with the issue and performance of the Notes. The creation and issue of the Notes have been authorised by a resolution of the Supervisory Board of the Issuer passed on 13 June 2019 and a resolution of the Board of Directors of the Parent Company passed on 13 June 2019.

4. No Material/Significant Change

There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 March 2019 and no material adverse change in the prospects of the Issuer or of the Group since 31 December 2018.

5. Independent auditors

The Audited Consolidated Financial Statements have been audited without qualification, and the Unaudited Consolidated Interim Financial Statements have been reviewed, by the independent auditors PricewaterhouseCoopers Georgia LLC.

6. Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the regulated market of Euronext Dublin.

7. LEI code

The Legal Entity Identifier ("**LEI**") code of the Issuer is 2138001MSA39Q44QTA18.

8. Third party information

The Issuer confirms that where information herein has been sourced from a third party, this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

9. Documents on Display

For as long as the Notes are listed on the Official List of Euronext Dublin and admitted to trading on the regulated market of Euronext Dublin, the following documents (together with English translations thereof (if any)) may be inspected during normal business hours at the specified office of the Principal Paying Agent in London:

(a) Trust Deed (which includes the form of the Global Certificates and the Definitive Certificates);

(b) Agency Agreement;

(c) the Issuer's Charter;

(d) the review report of PricewaterhouseCoopers Georgia LLC on the Unaudited Consolidated Interim Financial Statements beginning on page F-2 of this Prospectus, and a copy of the Unaudited Consolidated Interim Financial Statements;

(e) the audit reports of PricewaterhouseCoopers Georgia LLC on each of the Audited Consolidated Financial Statements beginning on page F-75 of this Prospectus, and copies of the Audited Consolidated Financial Statements; and

(f) a copy of this Prospectus.

10. Interests of Natural and Legal Persons Involved in the Offer of the Notes

Save as discussed in "*Subscription and Sale*", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

11. Yield

On the basis of the issue price of the Notes of 100% of their principal amount, the annual yield of the Notes for the period from (and including) the Closing Date to (but excluding) the First Reset Date is 10.750%. This yield is calculated on the Closing Date and is not an indication of future yield.

12. Clearing

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg for the Regulation S Notes and DTC for the Rule 144A Notes. The Common Codes, ISINs, CFI Code and CUSIP number, as applicable, for the Regulation S Notes and the Rule 144A Notes are as follows:

Regulation S Notes:

ISIN: XS1843433126
Common Code: 184343312

Rule 144A Notes:

ISIN: US48128XAB91
Common Code: 111730571
CUSIP: 48128XAB9

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, The address of Clearstream, Luxembourg is 42A, Avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg. The address of DTC is 55 Water Street, New York, NY 10041, United States.

13. Other Relationships

The Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates.

14. Proceedings against the Issuer

Save as disclosed in "*Description of Business—Legal Proceedings*", in the previous 12 months, there have not been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the previous 12 months, a significant effect on the Issuer's financial position or profitability.

INDEX TO FINANCIAL STATEMENTS

	Page
Unaudited Interim Condensed Consolidated Financial Statements as at and for the three months ended 31 March 2019	
Report on review of Condensed Consolidated Interim Financial Statements	F-4
Condensed consolidated interim statement of financial position	F-5
Condensed consolidated interim statement of profit or loss and other comprehensive income	F-6
Condensed consolidated interim statement of changes in equity	F-7
Condensed consolidated interim statement of cash flows	F-9
Notes to the Condensed Consolidated Interim Financial Statements	F-10
Audited Consolidated Financial Statements as at and for the years ended 31 December 2018, 2017 and 2016	
Independent auditor's report	F-77
Consolidated statement of financial position	F-80
Consolidated statements of profit or loss and other comprehensive income	F-82
Consolidated statement of changes in equity	F-84
Consolidated statements of cash flows	F-88
Notes to Consolidated Financial Statements	F-90

The Audited Consolidated Financial Statements and related auditor's report included on the following pages have been extracted without material adjustment from the annual report published at the date indicated in the auditor's report. References in the auditor's report to "other information" are references to other information in the annual report. Such other information does not form part of this Prospectus. In addition, any page references contained in the following pages are as per the respective annual reports, and have not been updated to refer to the relevant "F" page in the following pages.

TBC BANK GROUP

Condensed Consolidated Interim Financial Statements (Unaudited)

31 March 2019

CONTENTS

Independent review report

Unaudited Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statement of Financial Position 4
Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income 5
Condensed Consolidated Interim Statement of Changes in Equity 6
Condensed Consolidated Interim Statement of Cash Flows 8

Notes to the Condensed Consolidated Interim Financial Statements

1 Introduction 9
2 Summary of Significant Accounting Policies, Critical Accounting Estimates, and Judgements in Applying Accounting Policies 11
3 New Accounting Pronouncements 16
4 Cash and Cash Equivalents 17
5 Due from Other Banks 17
6 Mandatory cash balances with the National Bank of Georgia 17
7 Loans and Advances to Customers 18
8 Premises, Equipment and Intangible Assets 30
9 Due to Credit Institutions 31
10 Customer Accounts 32
11 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges 33
12 Subordinated Debt 34
13 Share Capital 35
14 Share Based Payments 36
15 Segment Analysis 41
16 Interest Income and Expense 46
17 Fee and Commission Income and Expense 46
18 Other Operating Income 47
19 Administrative and Other Operating Expenses 47
20 Income Taxes 47
21 Net Debt Reconciliation 48
22 Financial and Other Risk Management 48
23 Management of Capital 62
24 Contingencies and Commitments 65
25 Fair Value Disclosures 68
26 Related Party Transactions 71

Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders and Management of JSC TBC Bank:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of JSC TBC Bank and its subsidiaries (together – the "Group") as at 31 March 2019 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

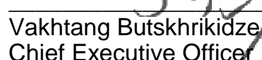
Lasha Janelidze (Reg.#SARAS-A-562091)

16 May 2019
Tbilisi, Georgia

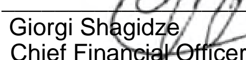
PricewaterhouseCoopers Georgia LLC; King David Business Center, 7th floor, #12 M. Aleksidze Street, Tbilisi 0171, Georgia, Tel: +995 (32) 250 80 50, www.pwc.com/ge

In thousands of GEL	Note	31 March 2019 (Unaudited)	31 December 2018
ASSETS			
Cash and cash equivalents	4	921,918	1,164,403
Due from other banks	5	22,112	37,384
Mandatory cash balances with the National Bank of Georgia	6	1,416,082	1,422,809
Loans and advances to customers	7	10,029,320	10,038,452
Investment securities measured at fair value through other comprehensive income		836,482	1,005,239
Bonds carried at amortized cost		624,021	653,703
Investments in finance leases		208,243	203,802
Investment properties		84,055	84,296
Current income tax prepayment		11,088	2,159
Deferred income tax asset		1,868	1,992
Other financial assets		110,228	154,259
Other assets		193,344	177,923
Premises and equipment	8	364,457	366,071
Intangible assets	8	118,681	108,505
Goodwill		29,459	29,459
Investments in Subsidiaries and Associates		2,601	2,432
Repurchase Receivables		89,768	-
Right of use assets	2	58,452	-
TOTAL ASSETS		**15,122,179**	**15,452,888**
LIABILITIES			
Due to credit institutions	9	2,692,585	3,031,505
Customer accounts	10	9,294,456	9,444,746
Other financial liabilities		150,598	78,205
Current income tax liability		37	63
Debt securities in issue		13,415	13,343
Deferred income tax liability		19,337	22,237
Provisions for liabilities and charges	11	13,376	13,817
Other liabilities		56,019	86,296
Subordinated debt	12	664,330	650,919
TOTAL LIABILITIES		**12,904,153**	**13,341,131**
EQUITY			
Share capital	13	21,014	21,014
Share premium	13	521,190	521,190
Retained earnings		1,676,122	1,543,581
Share based payment reserve	14	(59,932)	(33,591)
Revaluation reserve for premises		56,608	57,153
Fair value reserve		9,800	8,775
Cumulative currency translation reserve		(7,291)	(6,933)
Net assets attributable to the shareholders of the Group		**2,217,511**	**2,111,189**
Non-controlling interest		**515**	**568**
TOTAL EQUITY		**2,218,026**	**2,111,757**
TOTAL LIABILITIES AND EQUITY		**15,122,179**	**15,452,888**

The financial statements on pages 1 to 73 were approved by the Supervisory Board on 12 May 2019 and signed on its behalf on 16 May by:



Vakhtang Butskhrikidze
Chief Executive Officer



Giorgi Shagidze
Chief Financial Officer

In thousands of GEL	Note	Three months ended 31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Interest income	16	337,556	289,728
Interest expense	16	(142,801)	(115,451)
Net interest income		**194,755**	**174,277**
Fee and commission income	17	60,905	49,940
Fee and commission expense	17	(19,082)	(15,908)
Net fee and commission income		**41,823**	**34,032**
Net gains from trading in foreign currencies		21,588	17,080
Net gains from foreign exchange translation		3,690	2,733
(losses)/gains from derivative financial instruments		(158)	16
Net gains from disposal of investment securities measured at fair value through other comprehensive income		68	-
Other operating income	18	3,668	6,248
Share of profit of associates		169	308
Other operating non-interest income		**29,025**	**26,385**
Credit loss allowance for loan to customers		(36,416)	(27,999)
Credit loss allowance for investments in finance lease		(41)	(240)
Credit loss allowance for performance guarantees and credit related commitments		432	(3,637)
Credit loss allowance for other financial assets		3,000	(7,413)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		(17)	71
Operating income after credit impairment losses		**232,561**	**195,476**
Staff costs		(54,234)	(49,466)
Depreciation and amortisation		(15,806)	(10,387)
Administrative and other operating expenses		(27,557)	(27,276)
Operating expenses		**(97,597)**	**(87,129)**
Profit before tax		**134,964**	**108,347**
Income tax expense	20	(2,727)	(10,514)
Profit for the year		**132,237**	**97,833**
Other comprehensive income (OCI):			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve		1,025	2,374
Exchange differences on translation to presentation currency		(358)	(67)
Other comprehensive income for the year		**667**	**2,307**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**132,904**	**100,140**
Profit is attributable to:			
- Shareholders of the Group		132,290	97,711
- Non-controlling interest		(53)	122
Profit for the year		**132,237**	**97,833**
Total comprehensive income is attributable to:			
- Shareholders of the Group		132,957	100,018
- Non-controlling interest		(53)	122
Total comprehensive income for the year		**132,904**	**100,140**

In thousands of GEL	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for premises	Fair value reserve	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Net assets attributable to the shareholders of Group									
Balance as of 1 January 2018		**21,014**	**521,190**	**(7,272)**	**70,038**	**1,809**	**(7,358)**	**1,180,548**	**1,779,969**	**4,735**	**1,784,704**
Profit for the three months ended 31 March 2018 (unaudited)		-	-	-	-	-	-	97,711	**97,711**	122	**97,833**
Other comprehensive income for three months ended 31 March 2018 (unaudited)		-	-	-	-	2,307	-	-	**2,307**	-	**2,307**
Total comprehensive income for three months ended 31 March 2018 (unaudited)		-	-	-	**-**	**2,307**	**-**	**97,711**	**100,018**	**122**	**100,140**
Share based payment	14	-	**-**	3,790	**-**	**-**	**-**	**-**	**3,790**	-	**3,790**
Share based payment recharge by parent company		**-**	**-**	(38,010)	**-**	**-**	**-**	**-**	**(38,010)**	-	**(38,010)**
Balance as of 31 March 2018 (unaudited)		**21,014**	**521,190**	**(41,492)**	**70,038**	**4,116**	**(7,358)**	**1,278,259**	**1,845,767**	**4,857**	**1,850,624**
Balance as at 1 January 2019		**21,014**	**521,190**	**(33,591)**	**57,153**	**8,775**	**(6,933)**	**1,543,581**	**2,111,189**	**568**	**2,111,757**
Profit for the three months ended 31 March 2019 (unaudited)		**-**	**-**	**-**	**-**	-	-	132,290	**132,290**	(53)	**132,237**
Other comprehensive income/(loss) for three months ended 31 March 2019 (unaudited)		**-**	**-**	**-**	**-**	1,025	(358)	-	**667**	-	**667**
Total comprehensive income/(loss) for three months ended 31 March 2019		**-**	**-**	**-**	**-**	**1,025**	**(358)**	**132,290**	**132,957**	**(53)**	**132,904**

The notes set out on pages 9 to 73 form an integral part of these financial statements.

In thousands of GEL	Note	Share capital	Share pre-mium	Share based payments reserve	Revaluation reserve for premises	Fair value reserve	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
		Net assets attributable to the shareholders of Group									
(unaudited)											
Share based payment	14	**-**	**-**	8,127	**-**	**-**	**-**	**-**	8,127	-	**8,127**
Share based payment recharge by parent company		-	-	(34,468)	-	-	-	-	(34,468)	-	**(34,468)**
Transfer of revaluation surplus to RE and other movements		-	-	-	(545)	-	-	251	(294)	-	**(294)**
Balance as of 31 March 2019 (unaudited)		**21,014**	**521,190**	**(59,932)**	**56,608**	**9,800**	**(7,291)**	**1,676,122**	**2,217,511**	**515**	**2,218,026**

In thousands of GEL	Note	Three months ended 31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Cash flows from (used in) operating activities			
Interest received		331,666	286,748
Interest paid		(133,792)	(115,367)
Fees and commissions received		61,001	50,177
Fees and commissions paid		(19,068)	(15,983)
Income received from trading in foreign currencies		21,588	17,080
Other operating income received		(3,161)	(6,763)
Staff costs paid		(66,249)	(61,775)
Administrative and other operating expenses paid		(36,838)	(32,978)
Income tax paid		(14,497)	(113)
Cash flows from operating activities before changes in operating assets and liabilities		**140,650**	**121,026**
Net change in operating assets			
Due from other banks and mandatory cash balances with the National Bank of Georgia		42,131	27,815
Loans and advances to customers		(14,169)	(254,414)
Investment in finance lease		(9)	(10,397)
Other financial assets		52,888	27,213
Other assets		(6,995)	2,644
Net change in operating liabilities			
Due to other banks		159,324	27,601
Customer accounts		(161,342)	174,483
Other financial liabilities		10,868	(3,961)
Other liabilities and provision for liabilities and charges		2,596	408
Net cash flows (used in)/ from operating activities		**225,942**	**112,418**
Cash flows from (used in) investing activities			
Acquisition of investment securities measured at fair value through other comprehensive income		(29,994)	(80,312)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income		19,182	-
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income		126,739	158,849
Acquisition of bonds carried at amortised cost		(119,747)	(56,429)
Proceeds from redemption of bonds carried at amortised cost		98,613	71,405
Acquisition of premises, equipment and intangible assets		(24,729)	(15,017)
Proceeds from disposal of premises, equipment and intangible assets		4,965	910
Proceeds from disposal of investment property		1,414	4,192
Net cash flows used in investing activities		**76,443**	**83,598**
Cash flows from (used in) financing activities			
Proceeds from other borrowed funds	21	267,489	645,255
Redemption of other borrowed funds	21	(778,162)	(935,698)
Proceeds from debt securities in issue		(14)	75
Recharge paid		(34,469)	(38,010)
Payments of principal of lease liabilities		(3,202)	-
Net cash used in financing activities		**(548,358)**	**(328,378)**
Effect of exchange rate changes on cash and cash equivalents		**3,488**	**(52,727)**
Net decrease in cash and cash equivalents		**(242,485)**	**(185,089)**
Cash and cash equivalents at the beginning of the year		**1,164,403**	**1,428,771**
Cash and cash equivalents at the end of the year		**921,918**	**1,243,682**

1 Introduction

Principal activity. JSC TBC Bank (hereafter the "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 principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank is a parent of a group of companies incorporated in Georgia and Azerbaijan (hereafter the "Group"); their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. 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's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

The Bank has 146 (2018: 146) branches within Georgia.

On 1 June 2016, TBC Bank Group PLC, a public limited liability company, incorporated in England and Wales on 26 February 2016, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 4 August 2016, as of 31 March 2019 TBC Bank Group PLC holds 99.88% (2018: 99.88%) of the share capital of the Bank, thus representing the Bank's ultimate parent company. 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 Group PLC is 10029943.

As of 31 March 2019 and 31 December 2018, the following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 March 2019 and 31 December 2018 the Group had no ultimate controlling party.

Shareholders		31 March 2019 Ownership interest	31 December 2018 Ownership interest
TBC Bank Group PLC	13	99.88%	99.88%
Other*		0.12%	0.12%
Total		**100.00%**	**100.00%**

* Other includes individual as well as corporate shareholders.

As of 31 March 2019 and 31 December 2018 the shareholder structure by beneficiary ownership interest is disclosed in the table below:

Shareholders	31 March 2019 Ownership interest	31 December 2018 Ownership interest
Mamuka Khazaradze	13.39%	13.54%
Badri Japaridze	6.69%	6.77%
Institutional and retail investors	66.91%	66.91%
IFIs	8.09%	8.18%
Other Shareholders	4.92%	4.60%
Total	**100.00%**	**100.00%**

The changes in ownership interest are attributable to the issuance of bonus shares pursuant to the terms of management compensation schemes disclosed in Note 14 and regular share dealings on the market.

1 Introduction (Continued)

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

Company Name	Proportion of voting rights and ordinary share capital 31 March 2019	31 December 2018	Principal place of business or incorporation	Year of incorporation	Industry
United Financial Corporation JSC	98.67%	98.67%	Tbilisi, Georgia	2001	Card processing
TBC Capital LLC	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	99.61%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	100.00%	100.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC	100.00%	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	100.00%	100.00%	Tbilisi, Georgia	2008	Processing
Real Estate Management Fund JSC[2]	0.00%	0.00%	Tbilisi, Georgia	2010	Real estate management
TBC Invest LLC	100.00%	100.00%	Ramat Gan, Israel	2011	PR and marketing
Index LLC	100.00%	100.00%	Tbilisi, Georgia	2009	Real estate management
BG LLC[1]	0.00%	0.00%	Tbilisi, Georgia	2018	Real Estate

The consolidated financial statements include the following associates:

Company Name	Proportion of voting rights and ordinary share capital held 31 March 2019	31 December 2018	Principal place of business or incorporation	Year of incorpo-ration	Industry
JSC CreditInfo Georgia	21.08%	21.08%	Tbilisi, Georgia	2005	Financial intermediation
LLC Online Tickets	26.00%	26.00%	Tbilisi, Georgia	2015	Computer and Software Services

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

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.[1]

In January 2019, TBC Bank signed an agreement with Nikoil Open Join-Stock Company Investment Commercial Bank ("Nikoil Bank") and its shareholders to develop joint business in Azerbaijan. The agreement assumes transfer by TBC Bank of 100% share interest in TBC Kredit to Nikoil Bank in exchange for around 8% of share interest in Nikoil Bank. TBC Bank receives a right to acquire additional shareholding in Nikoil Bank (controlling interest) within four years at TBC's sole discretion. Shareholders of Nikoil bank also receive right to sell their remaining shareholdings to TBC Bank in case the Bank exercises its right to acquire additional shareholding in Nikoil Bank. The whole arrangement is still subject to regulatory approval in Azerbaijan.

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

[1] The Group has de-facto control over the subsidiary (actual control without legal form of ownership)

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

2.1 Basis of preparation

These condensed consolidated interim financial statements for the three months ended 31 March 2019 for TBC Bank JSC and its subsidiaries (together referred to as the “Group”) has been prepared in accordance with IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual consolidated financial statements. Accordingly, this report is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRSs. 2018 financial statements are available on the Group’s official website.

The same accounting policies and methods of computation were followed in the preparation of these condensed consolidated interim financial statements as used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The nature and the impact of each amendment is described below in 2.3 in this note. The impact of cyclicality and seasonality on the results and financial position of the Group are not expected to be significant.

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

Presentation currency. The condensed consolidated interim financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

Going Concern. The Management Board of TBC Bank JSC has prepared these condensed consolidated interim financial statements on a going concern basis. In making this judgement, management considered the Group’s financial position, current intentions, profitability of operations and access to financial resources. Management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern.

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

Foreign currency translation. At 31 March 2019 the closing rate of exchange used for translating foreign currency balances was USD 1 = GEL 2.6914 (31 December 2018: USD 1 = GEL 2.6766); EUR 1 = GEL 3.0203 (31 December 2018: EUR 1 = GEL 3.0701); GBP 1 = GEL 3.5147 (31 December 2018: GBP 1 = GEL 3.3955).

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

2.2 Critical accounting estimates, and judgements in applying accounting policies

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 23. 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 2,116 thousand (31 December 2018: GEL 2,056 thousand) and would result in a change of the Bank's cost of credit risk ratio by 8 basis points (31 December 2018: 2 basis points). 10% increase in Stage 2 exposures would increase impairment allowance on loans and advances by GEL 2,910 thousand (31 December 2018: GEL 2,723 thousand) and would result in a change of the Bank's cost of credit risk ratio by 11 basis points (31 December 2018: 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 March 2019 would increase (decrease) impairment allowance on loans and advances by GEL 18,537 thousand (GEL 18,596 thousand) (31 December 2018: increase (decrease) 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 73 (73) basis points (31 December 2018: 21 (21) basis points). As for the LGD ratio, a 10% increase (decrease) in LGD estimates at 31 March 2019 would increase (decrease) impairment allowance on loans and advances by GEL 28,548 thousand (GEL 28,461 thousand) (31 December 2018: increase (decrease) 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 112 (112) basis points (31 December 2018: 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 (31 December 2018: 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 4,948 thousand and would result in a change of the Bank's cost of credit risk ratio by 19 basis points as at December 2018 (31 December 2018: increase by GEL 4,860 thousand would result in a change of the Bank's cost of credit risk ratio by 5 basis points).

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

2.3 Initial application of IFRS 16

IFRS 16 replaces IAS 17 Leases for annual periods beginning on or after 1 January 2019. The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as of 1 January 2019 which were applied on a portfolio basis of leases with reasonably similar characteristics. The average incremental borrowing rates applied to the lease liabilities on 1 January 2019 was 3.77% for USD denominated contracts and 9.19% for GEL denominated contracts.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 in determining whether an arrangement contains a Lease.

The Group did not have finance leases balances outstanding as at 31 December 2018. TBC has made no adjustments where the Group acts as lessor, in either a finance or operating lease, of physical assets it owns. Where TBC acts as an intermediate lessor, i.e., enters into a head lease and subleases the asset to a third party, the sublease has been classified as either a finance or operating lease based primarily on whether the sublease term consumes the majority of the remaining useful life of the right-of-use asset arising from the head lease as at the transition date. The following table reconciles the obligations in respect of operating leases as at 31 December 2018 to the opening lease liabilities recognized on 1 January 2019:

Differences arising from the adoption of IFRS 16 as of 1 January 2019 are disclosed below:

In thousands of GEL	**1 January 2019**
Total future minimum lease payments for non-cancellable operating leases disclosed as at 31 December 2018.	6,844
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	61,444
- Effect of discounting to present value	(8,056)
Total effect on the Lease Liability as at 1 January 2019	**60,232**
Of which are:	
- Current lease liabilities	6,844
- Non-current lease liabilities	53,388

The right-of use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

2.3 Initial application of IFRS 16 (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by GEL 60,232 thousand;
- lease liabilities – increase by GEL 60,232 thousand.

The net impact on retained earnings on 1 January 2019 was nil.

2.4 IFRS 16 subsequent recognition and policies

As at 31 March the balances of Right of the use asset and the Lease liability are GEL 58,452 thousand and GEL 58,277 thousand respectively. Lease liabilities are recognized within other financial liabilities line in the Statement of Financial Position. The interest charge on lease liabilities presented within interest expense amounted GEL 542 thousand, recognized within interest expense. During the first quarter of 2019, the weighted average lease term was approximately 5 years and depreciation expense of right-of-use assets amounted GEL 3,179 thousand.

TBC predominantly enters into lease contracts, or contracts that include lease components, as a lessee of real estate, including offices, retail branches and service centers. TBC identifies non-lease components of a contract and accounts for them separately from lease components.

When TBC is lessee in a lease arrangement, TBC recognizes a lease liability and corresponding right-of-use (RoU) asset at the commencement of the lease term when TBC acquires control of the physical use of the asset. Lease liabilities are presented within other financial liabilities. The lease liability is measured based on the present value of the lease payments over the lease term, discounted using TBC's incremental borrowing rate. Interest expense on the lease liability is presented within Interest expense from financial instruments. The RoU asset is recorded at an amount equal to the lease liability but is adjusted for rent prepayments, initial direct costs, any costs to refurbish the leased asset or lease incentives received. The RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation expense in statement of comprehensive income.

Lease payments generally include fixed payments. When the lease contains an extension or termination option that the Group considers reasonably certain to be exercised, the expected rental payments or costs of termination are included within the lease payments used to generate the lease liability. TBC does not typically enter into leases with purchase options or residual value guarantees.

Where TBC acts as lessor or sublessor under a finance lease, a receivable is recognized and measured at amortized cost at an amount equal to the present value of the aggregate of the lease payments plus any unguaranteed residual value that TBC expects to recover at the end of the lease term.
Initial direct costs are also included in the initial measurement of the lease receivable. Lease payments received during the lease term are allocated as repayments of the outstanding receivable.
Interest income reflects a constant periodic rate of return on TBC's net investment using the interest rate implicit in the lease (or, for subleases, the rate for the head lease). TBC reviews the estimated unguaranteed residual value annually, and if the estimated residual value to be realized is less than the amount assumed at lease inception, a loss is recognized for the expected shortfall. Where TBC acts as a lessor or sublessor in an operating lease of owned real estate, TBC recognizes the operating lease income on a straight-line basis over the lease term.

Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

2.4 IFRS 16 subsequent recognition and policies (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following at initial recognition:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture or the items below the market value of USD 5,000.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

2.5 Adoption of other New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no other new or amended standards or interpretations that resulted in a change of the accounting policy or had an effect on the Group except described above.

3 New Accounting Pronouncements

The IASB has published a number of amendments. 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.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognizing the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognizing the loss immediately. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

4 Cash and Cash Equivalents

In thousands of GEL	31 March 2019	31 December 2018
Cash on hand	536,825	491,891
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	58,396	118,749
Correspondent accounts and overnight placements with other banks	161,106	369,431
Placements with and receivables from other banks with original maturities of less than three months	165,622	184,429
Total gross amount of cash and cash equivalents	**921,949**	**1,164,500**
Less: Credit loss allowance	(31)	(97)
Total carrying amount of cash and cash equivalents	**921,918**	**1,164,403**

As of 31 March 2019, 94% of the correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2018: 95%).

As of 31 March 2019, GEL 165,621 thousand was placed on interbank term deposits with one OECD bank (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).

5 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and do not represent past due amounts at the 31 March 2019 and 31 December 2018. As of 31 March 2019 GEL 15,794 (31 December 2018: GEL 15,725 thousand) were kept on deposits as restricted cash. Refer to Note 25 for the estimated fair value of amounts due from other banks.

As of 31 March 2019 the Group had no placement with any bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2018: one placement with one bank).

6 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia (“NBG”) represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 6.8%, 0.5% and (0.6%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in the three months ended 31 March 2019 (31 December 2018: 6.0%, 0.8% and (0.6%) in GEL, USD and EUR respectively).

In February 2019 Fitch Ratings has upgraded Georgia's long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-'. The Outlook is Stable. The issue ratings on Georgia's long-term senior unsecured foreign- and local-currency bonds upgraded to 'BB' from 'BB-'. The Country Ceiling upgraded to 'BBB-' from 'BB' and the Short-term foreign and local currency IDR affirmed at 'B'.

7 Loans and Advances to Customers

In thousands of GEL	31 March2019	31 December 2018
Corporate	3,364,911	3,177,289
Consumer	1,882,816	1,989,516
Mortgage	2,695,457	2,709,183
Loans to micro, small and medium enterprises	2,423,730	2,496,594
Total gross loans and advances to customers at AC	**10,366,914**	**10,372,582**
Less: credit loss allowance	(337,594)	(334,130)
Total carrying amount of loans and advances to customers at AC	**10,029,320**	**10,038,452**

In 2019, the Group made re-segmentation as disclosed in Note 15. Some of the clients were reallocated to different segments.

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. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL. It should be noted, that
  - Movement does not include exposures which were issued and covered during the period;
  - For loans, which existed at the beginning of the period, opening exposures are disclosed as transfer amounts;
  - For newly issued loans, starting exposures are disclosed as transfer amount
  - For the exposures which changed stage several times during the period, transfers between starting and ending stage is disclosed.
- New originated or purchased gives us information regarding gross loans and corresponding loan loss provision issued during the period (however, exposures which were issued and repaid during the period and issued to refinance existing loans are excluded);
- The line, derecognised during the period refers to starting balance of closed loans during the period (gross exposure and corresponding loan loss provision, however, exposures which were issued and repaid during the period and repaid by newly issued refinancing loans are excluded);
- Net repayments refers to net changes consisting of withdrawal of loan and repayment;
- Write off line refers to write off of loans during the period;
- Recovery section refers to recoveries of already written off loans during the period;
- Foreign exchange translations of assets denominated in foreign currencies and effect to translation in presentational currency for foreign subsidiary.
- Net remeasurement due to stage transfers and risk parameters changes refers to the movements in ECL as a result of transfer of exposure between stages or changes in risk parameters and forward looking expectations.

7 Loans and Advances to Customers (Continued)

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 31 December 2018	**2,903,315**	**138,713**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**
Resegmentation	128,078	-	-	**128,078**	889	-	-	**889**
At 1 January 2019	**3,031,393**	**138,713**	**135,261**	**3,305,367**	**33,829**	**4,994**	**43,571**	**82,394**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(80,000)	84,070	(4,070)	**-**	(2,510)	2,510	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(95)	(29)	124	**-**	(1)	1	-	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	9,549	(9,549)	-	**-**	352	(352)	-	**-**
New originated or purchased	640,411	-	-	**640,411**	8,810	-	-	**8,810**
Derecognised during the period	(493,898)	(15,402)	(2,743)	**(512,043)**	(6,892)	(590)	(32)	**(7,514)**
Net repayments	(25,798)	(43,057)	(3,571)	**(72,426)**	-	-	-	**-**
Other movements	(230)	-	-	**(230)**	-	-	-	**-**
Write-offs	-	-	-	**-**	-	-	-	**-**
Recoveries	-	-	-	**-**	-	-	500	**500**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	810	(1,134)	(1,522)	**(1,846)**
FX movements	2,871	457	504	**3,832**	-	-	29	**29**
At 31 March 2019	**3,084,203**	**155,203**	**125,505**	**3,364,911**	**34,398**	**5,429**	**42,546**	**82,373**

7 Loans and Advances to Customers (Continued)

Corporate loans	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2017	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Resegmentation	69,977	1,216	-	**71,193**	442	-	-	**442**
At 1 January 2018	**2,111,515**	**327,135**	**107,935**	**2,546,585**	**21,650**	**15,036**	**31,719**	**68,405**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(11,881)	11,881	-	**-**	(490)	490	-	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3)	(5,588)	5,591	**-**	(3)	(66)	69	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,346	(4,346)	-	**-**	35	(35)	-	**-**
New originated or purchased	395,041	-	-	**395,041**	4,064	-	-	**4,064**
Derecognised during the period	(225,177)	(19,877)	(23,586)	**(268,640)**	(2,093)	(536)	(485)	**(3,114)**
Net repayments	(64,201)	(11,364)	(3,942)	**(79,507)**	-	-	-	**-**
Other movements	(3)	-	-	**(3)**	-	-	-	**-**
Write-offs	-	-	-	**-**	-	-	-	**-**
Recoveries	-	-	-	**-**	-	-	943	**943**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(1,927)	(1,579)	(2,012)	**(5,518)**
FX movements	(83,106)	(15,519)	(5,335)	**(103,960)**	-	-	-	**-**
At 31 March 2018	**2,126,531**	**282,322**	**80,663**	**2,489,516**	**21,236**	**13,310**	**30,234**	**64,780**

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 31 December 2018	**2,210,725**	**193,049**	**92,820**	**2,496,594**	**19,273**	**22,379**	**29,362**	**71,014**
Resegmentation	(128,078)	-	-	**(128,078)**	(889)	-	-	**(889)**
At 1 January 2019	**2,082,647**	**193,049**	**92,820**	**2,368,516**	**18,384**	**22,379**	**29,362**	**70,125**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(74,218)	76,569	(2,351)	**-**	(2,553)	4,059	(1,506)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(6,161)	(21,371)	27,532	**-**	(414)	(3,693)	4,107	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	23,308	(23,228)	(80)	**-**	5,770	(5,713)	(57)	**-**
New originated or purchased	338,740	-	-	**338,740**	4,667	-	-	**4,667**
Derecognised during the period	(184,966)	(15,304)	(2,483)	**(202,753)**	(2,287)	(895)	(732)	**(3,914)**
Net repayments	(62,777)	(7,271)	(5,408)	**(75,456)**	-	-	-	**-**
Other movements	(422)	(108)	(92)	**(622)**	-	-	-	**-**
Write-offs	-	-	(7,367)	**(7,367)**	-	-	(7,367)	**(7,367)**
Recoveries	-	-	-	**-**	-	-	3,303	**3,303**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(5,153)	6,455	7,550	**8,852**
FX movements	1,979	328	365	**2,672**	-	-	40	**40**
At 31 Mach 2019	**2,118,130**	**202,664**	**102,936**	**2,423,730**	**18,414**	**22,592**	**34,700**	**75,706**

7 Loans and Advances to Customers (Continued)

Loans to micro, small and medium enterprises	**Gross carrying amount**				**Credit loss allowance**			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2017	**1,630,103**	**149,799**	**64,770**	**1,844,672**	**9,894**	**11,890**	**24,468**	**46,252**
Resegmentation	117,962	38,573	3,360	**159,895**	4,377	8,457	1,611	**14,445**
At 1 January 2018	**1,748,065**	**188,372**	**68,130**	**2,004,567**	**14,271**	**20,347**	**26,079**	**60,697**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(51,227)	53,321	(2,094)	**-**	(1,557)	2,268	(711)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,821)	(13,281)	17,102	**-**	(239)	(1,168)	1,407	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	18,841	(18,841)	-	**-**	2,296	(2,296)	-	**-**
New originated or purchased	281,667	-	-	**281,667**	3,598	-	-	**3,598**
Derecognised during the period	(140,880)	(10,379)	(6,503)	**(157,762)**	(1,156)	(328)	(2,386)	**(3,870)**
Net repayments	(72,743)	(9,617)	(2,130)	**(84,490)**	-	-	-	**-**
Other movements	112	32	75	**219**	-	-	-	**-**
Write-offs	-	-	(5,011)	**(5,011)**	-	-	(5,011)	**(5,011)**
Recoveries	-	-	-	**-**	-	-	2,360	**2,360**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(2,508)	3,317	4,160	**4,969**
FX movements	(55,070)	(6,615)	(3,429)	**(65,114)**	(11)	(24)	(446)	**(481)**
At 31 Mach 2018	**1,724,944**	**182,992**	**66,140**	**1,974,076**	**14,694**	**22,116**	**25,452**	**62,262**

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 31 December 2018	**1,641,993**	**265,673**	**81,850**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Resegmentation	-	-	-	**-**	-	-	-	**-**
At 1 January 2019	**1,641,993**	**265,673**	**81,850**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(94,857)	97,168	(2,311)	**-**	(10,192)	11,371	(1,179)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(11,469)	(35,339)	46,808	**-**	(2,647)	(8,569)	11,216	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	41,352	(41,288)	(64)	**-**	8,082	(8,044)	(38)	**-**
New originated or purchased	257,361	-	-	**257,361**	14,650	-	-	**14,650**
Derecognised during the period	(186,680)	(19,990)	(5,957)	**(212,627)**	(7,274)	(3,998)	(3,155)	**(14,427)**
Net repayments	(116,828)	(8,935)	(870)	**(126,633)**	-	-	-	**-**
Other movements	5,371	1,093	669	**7,133**	22	94	247	**363**
Write-offs	-	-	(32,992)	**(32,992)**	-	-	(32,992)	**(32,992)**
Recoveries	-	-	-	**-**	-	-	3,448	**3,448**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(7,717)	9,157	25,833	**27,273**
FX movements	840	141	77	**1,058**	-	-	12	**12**
At 31 March 2019	**1,537,083**	**258,523**	**87,210**	**1,882,816**	**37,827**	**59,256**	**57,967**	**155,050**

7 Loans and Advances to Customers (Continued)

Consumer loans *In thousands of GEL*	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2017	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Resegmentation	(186,688)	(39,789)	(3,360)	**(229,837)**	(4,886)	(8,391)	(1,611)	**(14,888)**
At 1 January 2018	**1,601,835**	**262,134**	**69,621**	**1,933,590**	**37,180**	**55,918**	**46,584**	**139,682**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(106,212)	108,602	(2,390)	**-**	(9,656)	10,926	(1,270)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4,812)	(22,403)	27,215	**-**	(1,185)	(5,421)	6,606	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	44,948	(44,948)	-	**-**	8,246	(8,246)	-	**-**
New originated or purchased	450,587	-	-	**450,587**	24,101	-	-	**24,101**
Derecognised during the period	(197,493)	(18,238)	(2,064)	**(217,795)**	(4,864)	(2,442)	(1,314)	**(8,620)**
Net repayments	(142,764)	(14,220)	(2,485)	**(159,469)**	-	-	-	**-**
Other movements	1,020	677	-208	**1,489**	-	-	-	**-**
Write-offs	-	-	(25,549)	**(25,549)**	-	-	(25,549)	**(25,549)**
Recoveries	-	-	-	**-**	-	-	4,810	**4,810**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(10,454)	6,734	13,102	**9,382**
FX movements	(17,448)	(2,544)	(1,449)	**(21,441)**	(46)	(8)	(70)	**(124)**
At 31 March 2018	**1,629,661**	**269,060**	**62,691**	**1,961,412**	**43,322**	**57,461**	**42,899**	**143,682**

Mortgage loans *In thousands of GEL*	Gross carrying amount				Credit loss allowance			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2018	**2,470,603**	**194,410**	**44,170**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Resegmentation	-	-	-	**-**	-	-	-	**-**
At 1 January 2019	**2,470,603**	**194,410**	**44,170**	**2,709,183**	**1,696**	**9,166**	**14,026**	**24,888**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(69,195)	73,086	(3,891)	**-**	(257)	1,822	(1,565)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,606)	(5,722)	8,328	**-**	(318)	(323)	641	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	40,702	(40,702)	-	**-**	1,174	(1,174)	-	**-**
New originated or purchased	176,150	-	-	**176,150**	508	-	-	**508**
Derecognised during the period	(86,854)	(9,563)	(1,931)	**(98,348)**	(80)	(295)	(645)	**(1,020)**
Net repayments	(76,012)	(4,913)	(2,311)	**(83,236)**	-	-	-	**-**
Other movements	(6,213)	(1,253)	(809)	**(8,275)**	(21)	(94)	(248)	**(363)**
Write-offs	-	-	(629)	**(629)**	-	-	(629)	**(629)**
Recoveries	-	-	-	**-**	-	-	677	**677**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(1,173)	(12)	1,561	**376**
FX movements	(10)	488	134	**612**	-	1	27	**28**
At 31 March 2019	**2,446,565**	**205,831**	**43,061**	**2,695,457**	**1,529**	**9,091**	**13,845**	**24,465**

7 Loans and Advances to Customers (Continued)

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
At 31 December 2017	**1,839,707**	**189,887**	**40,136**	**2,069,730**	**1,371**	**9,336**	**12,102**	**22,809**
Resegmentation	(1,251)	-	-	**(1,251)**	(13)	(8)	-	**(21)**
At 1 January 2018	**1,838,456**	**189,887**	**40,136**	**2,068,479**	**1,358**	**9,328**	**12,102**	**22,788**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(57,470)	61,417	(3,947)	**-**	(384)	1,476	(1,092)	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,127)	(8,553)	9,680	**-**	(113)	(494)	607	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,399	(31,399)	-	**-**	962	(962)	-	**-**
New originated or purchased	212,270	-	-	**212,270**	397	-	-	**397**
Derecognised during the period	(83,642)	(10,909)	45	**(94,506)**	(108)	(527)	(55)	**(690)**
Net repayments	(63,529)	(4,896)	(1,714)	**(70,139)**	-	-	-	**-**
Other movements	(734)	(605)	65	**(1,274)**	-	-	-	**-**
Write-offs	69	9	(1,334)	**(1,256)**	69	9	(1,334)	**(1,256)**
Recoveries	-	-	-	**-**	-	-	1,066	**1,066**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	(830)	1,839	2,228	**3,237**
FX movements	(91,969)	(11,075)	(2,536)	**(105,580)**	(6)	(29)	(135)	**(170)**
At 31 March 2018	**1,783,723**	**183,876**	**40,395**	**2,007,994**	**1,345**	**10,640**	**13,387**	**25,372**

7 Loans and Advances to Customers (Continued)

As of 31 March 2019 loans and advances to customers carried at GEL 130,163 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (31 December 2018: GEL 228,454 thousand).

Movements in the provision for loan impairment during the three months ended 31 March 2019 are as follows:

In thousands of GEL	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Loans to micro, small and medium enterprises**	**Total**
Credit loss allowance as of 31 December 2018	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**
Resegmentation effect	767	-	-	(767)	-
Credit loss allowance during the year:	(428)	27,860	(501)	9,485	**36,416**
Amounts written off during the period as uncollectible	-	(32,992)	(629)	(7,367)	**(40,988)**
Recoveries	500	3,448	677	3,302	**7,927**
Effect of translation to presentation currency	29	11	30	39	**109**
Credit loss allowance as of 31 March 2019	**82,373**	**155,050**	**24,465**	**75,706**	**337,594**

Loans and advances to customers written off in the first quarter of 2019 included loans to customers in the gross amount of GEL 8,159 thousand issued in 2019 and GEL 32,829 thousand issued in previous years.

Movements in the provision for loan impairment during the three months ended 31 March 2018 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 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	442	(14,889)	(21)	14,468	-
Credit loss allowance during the year:	**(4,568)**	**24,863**	**3,021**	**4,683**	**27,999**
Amounts written off during the period as uncollectible	-	(25,549)	(1,334)	(5,011)	**(31,894)**
Recoveries	943	4,810	1,066	2,360	**9,179**
Effect of translation to presentation currency	-	(124)	(168)	(492)	**(784)**
Credit Loss allowance as of 31 March 2018	**64,780**	**143,681**	**25,373**	**62,260**	**296,094**

7 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 March 2019		31 December 2018	
In thousands of GEL	**Amount**	**%**	**Amount**	**%**
Individual	4,560,433	44%	4,677,328	45%
Energy & Utilities	825,872	8%	776,204	7%
Hospitality & Leisure	816,633	8%	759,605	7%
Food Industry	586,463	6%	570,810	6%
Real Estate	586,331	6%	564,197	5%
Trade	508,655	5%	445,290	4%
Agriculture	428,842	4%	418,432	4%
Construction	376,172	4%	359,549	3%
Pawn Shops	276,006	2%	278,384	3%
Healthcare	238,551	2%	220,756	2%
Communication	221,655	2%	229,522	2%
Automotive	194,036	2%	156,241	2%
Services	190,986	2%	180,045	2%
Transportation	108,115	1%	80,075	1%
Metals and Mining	100,793	1%	100,855	1%
Financial Services	56,164	1%	71,617	1%
Other	291,207	2%	483,672	5%
Total loans and advances to customers (before impairment)	**10,366,914**	**100%**	**10,372,582**	**100%**

As of 31 March 2019 the Group had 173 borrowers (31 December 2018: 170 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 3,092,249 thousand (31 December 2018: GEL 3,054,314 thousand) or 29.8% of the gross loan portfolio (31 December 2018: 29.4%).

7 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding as of 31 March 2019 is as follows:

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	2,920,864	23,458	-	2,944,322
- Low	163,339	128,440	-	291,779
- Moderate	-	2,589	-	2,589
- High	-	716	-	716
- Default	-	-	125,505	125,505
Gross carrying amount	**3,084,203**	**155,203**	**125,505**	**3,364,911**
Credit loss allowance	**(34,398)**	**(5,429)**	**(42,546)**	**(82,373)**
Carrying amount	**3,049,805**	**149,774**	**82,959**	**3,282,538**
Consumer loans risk category				
- Very low	1,063,752	4,799	-	**1,068,551**
- Low	329,804	18,676	-	**348,480**
- Moderate	143,527	202,503	-	**346,030**
- High	-	32,545	-	**32,545**
- Default	-	-	87,210	**87,210**
Gross carrying amount	**1,537,083**	**258,523**	**87,210**	**1,882,816**
Credit loss allowance	**(37,827)**	**(59,256)**	**(57,967)**	**(155,050)**
Carrying amount	**1,499,256**	**199,267**	**29,243**	**1,727,766**
Mortgage loans risk category				
- Very low	2,269,848	20,139	-	**2,289,987**
- Low	162,937	69,909	-	**232,846**
- Moderate	13,780	101,916	-	**115,696**
- High	-	13,867	-	**13,867**
- Default	-	-	43,061	**43,061**
Gross carrying amount	**2,446,565**	**205,831**	**43,061**	**2,695,457**
Credit loss allowance	**(1,529)**	**(9,091)**	**(13,845)**	**(24,465)**
Carrying amount	**2,445,036**	**196,740**	**29,216**	**2,670,992**

7 Loans and Advances to Customers (Continued)

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	1,768,083	21,567	-	**1,789,650**
- Low	330,039	82,849	-	**412,888**
- Moderate	20,008	79,264	-	**99,272**
- High	-	18,984	-	**18,984**
- Default	-	-	102,936	**102,936**
Gross carrying amount	**2,118,130**	**202,664**	**102,936**	**2,423,730**
Credit loss allowance	**(18,414)**	**(22,592)**	**(34,700)**	**(75,706)**
Carrying amount	**2,099,716**	**180,072**	**68,236**	**2,348,024**

Analysis by credit quality of loans outstanding as of 31 December 2018 is as follows:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	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**

7 Loans and Advances to Customers (Continued)

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**

In 2018 the Group applied the portfolio provisioning methodology prescribed by IFRS 9.

The tables above provide an analysis of the loan portfolio based on credit quality. As at January 1, 2018 the group implemented provisioning methodology in accordance with IFRS 9.

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.

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 March 2019:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate	2,864,798	6,735,849	500,113	168,096
Consumer	1,126,879	2,482,371	755,937	62,116
Mortgage	2,604,267	5,383,840	91,190	72,627
MSME	2,096,045	5,081,803	327,685	219,449
Total	**8,691,989**	**19,683,863**	**1,674,925**	**522,288**

7 Loans and Advances to Customers (Continued)

The effect of collateral as of 31 December 2018:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	2,857,207	6,516,492	320,082	47,249
Consumer loans	1,213,594	2,543,720	775,922	34,242
Mortgage loans	2,663,362	5,404,518	45,821	28,934
Loans to micro, small and medium enterprises	2,340,847	5,324,290	155,747	68,110
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

The effect of collateral 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 GEL 253,674 thousand and GEL 527,498 thousand as of 31 March 2019 and 31 December 2018, respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 25 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 21. Information on related party balances is disclosed in Note 26.

8 Premises, Equipment and Intangible Assets

In thousands of GEL	**Land, Premises and leasehold improvements**	**Office and Other equipment***	**Construction in progress**	**Total premises and equipment**	**Intangible Assets**	**Total**
Carrying amount as of 31 December 2017	**197,561**	**78,048**	**90,456**	**366,065**	**83,072**	**449,137**
Cost or valuation as of 31 December 2017	232,557	191,157	90,456	**514,170**	123,253	**637,423**
Accumulated depreciation/amortisation including accumulated impairment loss	(34,996)	(113,109)	-	**(148,105)**	(40,181)	**(188,286)**
Carrying amount at 1 January 2018	**197,561**	**78,048**	**90,456**	**366,065**	**83,072**	**449,137**
Additions	1,345	8,287	265	**9,897**	5,014	**14,911**
Transfers within premises and equipment	1,203	-	(1,203)	**-**	-	**-**
Disposals	(361)	(1,397)	-	**(1,758)**	3	**(1,755)**
Effect of translation to presentation currency Cost	(42)	(58)	-	**(100)**	(19)	**(119)**
Impairment charge to profit and loss	-	126	-	**126**	-	**126**
Depreciation/amortisation charge	(1,317)	(5,198)	-	**(6,515)**	(3,620)	**(10,135)**
Elimination of accumulated depreciation/amortisation on disposals	58	699	-	**757**	-	**757**
Effect of translation to presentation currency - Accumulated depreciation	42	55	-	**97**	11	**108**
Carrying amount at 31 March 2018	**198,490**	**80,562**	**89,518**	**368,570**	**84,461**	**453,031**
Cost or valuation at 31 March 2018	**234,702**	**198,115**	**89,518**	**522,335**	**128,251**	**650,586**
Accumulated depreciation/amortisation including accumulated impairment loss	(36,213)	(117,553)	-	(153,766)	(43,790)	**(197,556)**
Carrying amount as of 31 December 2018	**213,018**	**87,921**	**65,132**	**366,071**	**108,505**	**474,576**
Cost or valuation as of 31 December 2018	253,456	214,516	65,132	533,104	164,705	**697,809**
Accumulated depreciation/amortisation including accumulated impairment loss	(40,438)	(126,595)	-	(167,033)	(56,200)	**(223,233)**
Carrying amount at 1 January 2019	**213,018**	**87,921**	**65,132**	**366,071**	**108,505**	**474,576**
Additions	1,165	5,222	3,482	9,869	15,397	**25,266**
Disposals	(2,717)	(3,257)	-	(5,974)	(460)	**(6,434)**
Transfer	375	195	(570)	-	-	**-**
Transfer to Financial leases or repossessed assets	-	(531)	-	(531)	-	**(531)**
Effect of translation to presentation currency (cost)	-	8	-	8	(16)	**(8)**
(Impairment charge)/reversal of impairment to profit or loss	(30)	32	-	2	-	**2**
Depreciation/amortisation charge	(1,460)	(5,464)	-	(6,924)	(5,080)	**(12,004)**
Elimination of accumulated depreciation/amortisation on disposals	799	1,146	-	1,945	323	**2,268**
Effect of translation to presentation currency (accumulated depreciation)	-	(9)	-	(9)	12	**3**
Carrying amount at 31 March 2019	**211,150**	**85,263**	**68,044**	**364,457**	**118,681**	**483,138**
Cost or valuation at 31 March 2019	252,249	216,185	68,044	536,478	179,626	**716,104**
Accumulated depreciation/amortisation including accumulated impairment loss	(41,099)	(130,922)	-	(172,021)	(60,945)	**(232,966)**

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

8 Premises, Equipment and Intangible Assets (Continued)

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

9 Due to Credit Institutions

In thousands of GEL	**31 March 2019**	**31 December 2018**
Due to other banks		
Correspondent accounts and overnight placements	18,808	23,273
Deposits from banks	214,538	136,161
Short-term loans from banks	87,436	-
Total due to other banks	**320,782**	**159,434**
Other borrowed funds		
Borrowings from foreign banks and financial institutions	2,180,964	2,065,560
Borrowings from local banks and financial institutions	153,535	769,911
Borrowings from Ministry of Finance	-	1,520
Borrowings from other financial institutions	37,304	35,080
Total other borrowed funds	**2,371,803**	**2,872,071**
Total amounts due to credit institutions	**2,692,585**	**3,031,505**

10 Customer Accounts

In thousands of GEL	31 March 2019	31 December 2018
State and public organisations		
- Current/settlement accounts	808,890	667,553
- Term deposits	676,606	538,311
Other legal entities		
- Current/settlement accounts	2,595,410	2,797,214
- Term deposits	298,622	337,697
Individuals		
- Current/demand accounts	2,247,950	2,426,597
- Term deposits	2,666,978	2,677,374
Total customer accounts	**9,294,456**	**9,444,746**

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 March 2019		31 December 2018	
In thousands of GEL	Amount	%	Amount	%
Individual	4,914,928	53%	5,103,971	54%
Government sector	786,035	8%	531,964	6%
Construction	490,453	5%	613,973	7%
Financial Services	475,139	5%	397,653	4%
Trade	470,573	5%	550,527	6%
Energy & Utilities	411,620	4%	417,037	4%
Transportation	388,909	4%	486,939	5%
Services	334,038	4%	360,084	4%
Real Estate	192,618	2%	207,227	2%
Healthcare	102,726	1%	76,464	1%
Hotels and Leisure	84,393	1%	102,529	1%
Agriculture	35,198	0%	35,884	0%
Metals and Mining	14,537	0%	12,479	0%
Other	593,289	8%	548,015	6%
Total customer accounts	**9,294,456**	**100%**	**9,444,746**	**100%**

As of 31 March 2019 the Group had 307 customers (31 December 2018: 307 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,340,507 thousand (2018: GEL 4,210,022 thousand) or 46.7% of total customer accounts (31 December 2018: 45.0%).

As of 31 March 2019 included in customer accounts are deposits of GEL 3,621 thousand and GEL 123,911 thousand (31 December 2018: GEL 6,766 thousand and GEL 158,306 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 24. As of 31 March 2019, deposits held as collateral for loans to customers amounted to GEL 256,618 thousand (31 December 2018: GEL 270,787 thousand).

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

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

Movements in provisions for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	**Performance guarantees**	**Credit related commitments**	**Other**	**Total**
Carrying amount as of 31 December 2017	**2,067**	**8,239**	**-**	**10,306**
IFRS 9 transition effect	684	(4,661)	-	**(3,977)**
Carrying amount as of 1 January 2018	**2,751**	**3,578**	-	**6,329**
Charges less releases recorded in profit or loss	4,612	(975)	-	**3,637**
Effect of translation to presentation currency	(7)	-	-	**(7)**
Carrying amount at 31 March 2018	**7,356**	**2,603**	**-**	**9,959**
Carrying amount at 1 January 2019	**4,393**	**5,424**	**4,000**	**13,817**
Charges less releases recorded in profit or loss	(61)	(372)	-	**(433)**
Effect of translation to presentation currency	(8)	-	-	**(8)**
Carrying amount as of 31 March 2019	**4,324**	**5,052**	**4,000**	**13,376**

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.

For the purpose of ECL measurement other guarantees balances are included in mainly Stage 1 or Stage 2. Refer to Note 35 for the ECL measurement approach.

12 Subordinated Debt

As of 31 March 2019, 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	26-Jun-13	15-Jun-20	USD	7,741	20,832
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	30,098	81,007
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,279	6,279
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,867	6,867
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	14,951	40,239
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,477	20,123
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,475	20,119
Asian Development Bank (ADB)	18-Oct-16	18-Oct-26	USD	51,896	139,672
Private lenders	30-Jun-17	30-Jun-23	USD	25,231	67,906
Subordinated Bond	17-Aug-18	30-Nov-22	USD	10,108	27,206
Global climate partnership fund	20-Nov-18	20-Nov-28	USD	25,655	69,048
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,029	2,770
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,190	8,585
ResponsAbility Micro and SME finance fund	30-Nov-18	30-Nov-28	USD	6,073	16,346
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-25	USD	15,268	41,092
BlueOrchard Microfinance Fund	14-Dec-18	14-Dec-28	USD	15,267	41,089
European Fund for Southeast Europe	21-Dec-18	21-Dec-28	USD	20,491	55,150
Total subordinated debt					**664,330**

As of 31 December 2018, subordinated debt comprised of:

In thousands of GEL	**Grant Date**	**Maturity Date**	**Currency**	**Outstanding amount in original currency**	**Outstanding amount in GEL**
Deutsche Investitions und Entwicklungsgesellschaft MBH	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 Development 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 climate partnership fund	20-Nov-18	20-Nov-28	USD	25,111	67,211
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,007	2,695
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,121	8,354
ResponsAbility 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**

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

13 Share Capital

As of 31 March 2019 the total authorised number of ordinary shares was 52,539,769 shares (31 December 2018: 52,539,769 shares). Each share has a nominal value of GEL 0.4 (31 December 2018: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 31 December 2018	**52,539,769**	**21,014**	**521,190**	**542,204**
At 31 March 2019	**52,539,769**	**21,014**	**521,190**	**542,204**

On 21 May 2018, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 12 June 2018 and on 14 June 2018 shareholders received the payment of the total GEL 95,626 thousand dividends.

14 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 had been 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 percent 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 management compensation scheme, both shareholders and Supervisory Board held put options on the shares to be awarded. In addition, they both held 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.

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 have been 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.

14 Share Based Payments (Continued)

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 was 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 was paid under the new system. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares had been awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management 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 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 had been gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme remained conceptually the same and was only updated to reflect the Group's new structure, whereby TBC Bank Group PLC distributes its shares to the scheme's participants, instead of JSC TBC Bank. The respective shares' value is recharged to JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries, which is accounted as cash settled part.

The share based payment scheme for middle management continues under existing terms for 2019-2021.

14 Share Based Payments (Continued)

December 2018 arrangements:

In December 2018, the Bank's Supervisory Board approved following new management compensation schemes for the top management. The Group considered 28 December 2018 as the grant date. Arrangements are discussed in below paragraphs:

Deferred share salary plan

Part of the top management 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. The new system is enforced from January 2019 through 2021. 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.

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

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

Deferred Bonus plan

The annual bonus for the top management is determined as to the extent that the annual KPIs have been met. The new system is enforced from January 2019 through 2021. 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. 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. 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 number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

14 Share Based Payments (Continued)

Long Term Incentive Plan (LTIP)

Long term incentive plan is used to provide a strong motivational tool to achieve long term performance conditions and to provide rewards to the extent those performance conditions are achieved. Performance conditions are chosen to align 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. The new system will be enforced from 2021 through 2023. Shares 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. An award holder shall have no voting rights, or rights to receive dividends, in respect of a conditional share award before such award becomes a vested award. 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. 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. 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 number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The bank pays income tax and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.

The performance conditions for the award are set by the Committee each year. The Remuneration Committee's current view is that performance conditions will include: 1) a measure of efficiency (e.g. ROE) 2) a measure of share price performance (e.g. EPS/TSR) 3) a measure of customer experience Weightings of these measures may vary year-on-year. The performance period is three year.

Tabular information on above schemes is given below:

In GEL except for number of shares	**31 March 2019**	**31 December 2018**
Number of unvested shares at the beginning of the period	**2,121,129**	**2,284,773**
Number of shares granted	1,610,159	-
Change in estimate of number of shares expected to vest based on performance conditions	(16,501)	166,377
Number of shares vested	(519,130)	(330,021)
Number of unvested shares at the end of the period	**3,195,657**	**2,121,129**
Value at grant date per share (GEL) June 2013 remuneration system	13.93	13.93
Value at grant date per share (GEL) June 2015 remuneration system	24.64	24.64
Value at grant date per share (GEL) 2018 remuneration systems	50.16	-

	31 March 2019	**31 March 2018**
Expense on equity-settled part (GEL thousand)	8,127	3,790
Expense on cash-settled part (GEL thousand)	(2,012)	5,073
Expense recognised as staff cost during the period (GEL thousand)	**6,115**	**8,863**

14 Share Based Payments (Continued)

There have been no liabilities in respect of the cash-settled part of the award as of 31 March 2019 (31 December 2018: GEL 11,001 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.

In March 2019 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 decreased estimated number of shares to vest by 16,501 (31 December 2018: increased by 166,377).

15 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 2019 the Group made the re-segmentation after which some of the clients were reallocated to different segments – GEL 128 million of loans and customers amount was transferred from MSME to Corporate segment. In the tables below is disclosed the information as of 31 March 2019 both with and without re-segmentation effect.

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

- Corporate – legal entity/group of affiliated entities with an annual revenue exceeding GEL 12.0 million or who have been granted facilities with more than GEL 5 million. Some other business customers may also be assigned to the corporate segment or transferred to MSME on a discretionary basis;
- Retail – non-business individual customers 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 Management Board 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 as of 31 March 2019 and 31 December 2018.

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 22.

A summary of the Group's reportable segments as of 31 March 2019 with updated segmentation and also without re-segmentation effect (for comparative reasons) and 31 March 2018 is provided below:

155 Segment Analysis (Continued)

Per new segmentation:

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 March 2019					
– Interest income	78,904	145,814	69,376	43,462	**337,556**
– interest expense	(40,790)	(34,629)	(2,194)	(65,188)	**(142,801)**
– Inter-segment interest income/(expense)	11,584	(17,024)	(23,463)	28,903	**-**
– **Net interest income**	**49,698**	**94,161**	**43,719**	**7,177**	**194,755**
– Fee and commission income	11,252	44,021	5,255	377	**60,905**
– Fee and commission expense	(1,590)	(15,727)	(1,667)	(98)	**(19,082)**
– **Net Fee and commission income**	**9,662**	**28,294**	**3,588**	**279**	**41,823**
– Net gains from trading in foreign currencies	12,207	6,159	4,446	(1,224)	**21,588**
– Net gains from foreign exchange translation	-	-	-	3,690	**3,690**
– Net losses from derivative financial instruments	-	(148)	-	(10)	**(158)**
– Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	68	**68**
– Other operating income	264	2,409	460	535	**3,668**
– Share of profit of associates	-	-	-	169	**169**
– **Other operating non-interest income**	**12,471**	**8,420**	**4,906**	**3,228**	**29,025**
– Credit loss allowance for loans to customers	428	(27,359)	(9,485)	-	**(36,416)**
– Credit loss allowance for performance guarantees and credit related commitments	(144)	393	183	-	**432**
– Credit loss allowance for investments in finance lease	-	-	-	(41)	**(41)**
– Credit loss allowance for other financial assets	3,864	38	-	(902)	**3,000**
– Credit loss allowance for financial assets measured at fair value through OCI	(39)	-	-	-	**(39)**
– Credit loss allowance for financial assets measured at amortised cost	-	-	-	22	**22**
– **Profit before administrative and other expenses and income taxes**	**75,940**	**103,947**	**42,911**	**9,763**	**232,561**
– Staff costs	(7,770)	(32,551)	(11,116)	(2,797)	**(54,234)**
– Depreciation and amortisation	(717)	(12,499)	(2,015)	(575)	**(15,806)**
– Administrative and other operating expenses	(2,745)	(17,504)	(4,686)	(2,622)	**(27,557)**
– **Operating expenses**	**(11,232)**	**(62,554)**	**(17,817)**	**(5,994)**	**(97,597)**
– **Profit before tax**	**64,708**	**41,393**	**25,094**	**3,769**	**134,964**
– Income tax expense	(9,871)	(5,217)	(3,749)	16,110	**(2,727)**
– **Profit for the period**	**54,837**	**36,176**	**21,345**	**19,879**	**132,237**
31 March 2019					
Total gross loans and advances to customers reported	3,364,911	4,578,273	2,423,730	-	**10,366,914**
Total customer accounts reported	3,444,103	4,914,928	935,425	-	**9,294,456**
Total credit related commitments and performance guarantees	1,687,290	222,182	219,353	-	**2,128,825**

155 Segment Analysis (Continued)

Per old segmentation:

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 March 2019					
− Interest income	76,238	145,814	72,042	43,462	337,556
− interest expense	(40,781)	(34,629)	(2,203)	(65,188)	(142,801)
− Inter-segment interest income/(expense)	12,888	(17,024)	(24,767)	28,903	-
− **Net interest income**	48,345	94,161	45,072	7,177	**194,755**
− Fee and commission income	11,220	44,021	5,287	377	60,905
− Fee and commission expense	(1,590)	(15,727)	(1,667)	(98)	(19,082)
− **Net Fee and commission income**	**9,630**	**28,294**	**3,620**	**279**	**41,823**
− Net gains from trading in foreign currencies	12,136	6,159	4,517	(1,224)	21,588
− Net gains from foreign exchange translation	-	-	-	3,690	3,690
− Net losses from derivative financial instruments	-	(148)	-	(10)	(158)
− Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	68	68
− Other operating income	264	2,409	460	535	3,668
− Share of profit of associates	-	-	-	169	169
− **Other operating non-interest income**	**12,400**	**8,420**	**4,977**	**3,228**	**29,025**
− Credit loss allowance for loans to customers	(431)	(27,359)	(8,626)	-	(36,416)
− Credit loss allowance for performance guarantees and credit related commitments	(146)	393	185	-	432
− Credit loss allowance for investments in finance lease	-	-	-	(41)	(41)
− Credit loss allowance for other financial assets	3,864	38	-	(902)	3,000
− Credit loss allowance for financial assets measured at fair value through OCI	(39)	-	-	-	(39)
− Credit loss allowance for financial assets measured at amortised cost	-	-	-	22	22
− **Profit before administrative and other expenses and income taxes**	73,623	103,947	45,228	9,763	232,561
− Staff costs	(7,770)	(32,551)	(11,116)	(2,797)	(54,234)
− Depreciation and amortisation	(717)	(12,499)	(2,015)	(575)	(15,806)
− Provision for liabilities and charges					
− Administrative and other operating expenses	(2,745)	(17,504)	(4,686)	(2,622)	(27,557)
− **Operating expenses**	(11,232)	(62,554)	(17,817)	(5,994)	(97,597)
− **Profit before tax**	62,391	41,393	27,411	3,769	134,964
− Income tax expense	(10,219)	(5,217)	(3,401)	16,110	(2,727)
− **Profit for the period**	52,172	36,176	24,010	19,879	132,237
31 March 2019					
Total gross loans and advances to customers reported	3,236,962	4,578,273	2,551,679	-	**10,366,914**
Total customer accounts reported	3,374,171	4,914,928	1,005,357	-	**9,294,456**
Total credit related commitments and performance guarantees	1,687,290	222,182	219,353	-	**2,128,825**

155 Segment Analysis (Continued)

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 March 2018					
− Interest income	57,217	149,300	50,999	32,212	289,728
− interest expense	(31,371)	(29,436)	(2,593)	(52,051)	(115,451)
− Inter-segment interest income/(expense)	4,292	(22,996)	(17,984)	36,688	-
− **Net interest income**	30,138	96,868	30,422	16,849	174,277
− Fee and commission income	7,015	37,449	5,152	324	49,940
− Fee and commission expense	(1,268)	(13,031)	(1,540)	(69)	(15,908)
− **Net Fee and commission income**	**5,747**	**24,418**	**3,612**	**255**	**34,032**
− Net gains from trading in foreign currencies	8,770	5,661	4,862	(2,213)	**17,080**
− Net gains from foreign exchange translation	-	-	-	2,733	**2,733**
− Net losses from derivative financial instruments	-	-	-	16	**16**
− Other operating income	2,292	3,149	209	598	**6,248**
− Share of profit of associates	-	-	-	308	**308**
− **Other operating non-interest income**	**11,062**	**8,810**	**5,071**	**1,442**	**26,385**
− Credit loss allowance for loans to customers	4,568	(27,884)	(4,683)	-	**(27,999)**
− Credit loss allowance for performance guarantees and credit related commitments	(4,070)	148	285	-	**(3,637)**
− Credit loss allowance for investments in finance lease	-	-	-	(240)	**(240)**
− Credit loss allowance for other financial assets	(7,026)	-	(3)	(384)	**(7,413)**
− Credit loss allowance for financial assets measured at fair value through OCI	(10)	-	-	81	**71**
− **Profit before administrative and other expenses and income taxes**	**40,409**	**102,360**	**34,704**	**18,003**	**195,476**
− Staff costs	(6,508)	(31,895)	(8,727)	(2,336)	(49,466)
− Depreciation and amortisation	(506)	(8,519)	(1,134)	(228)	(10,387)
− Administrative and other operating expenses	(1,772)	(19,977)	(3,285)	(2,242)	(27,276)
− **Operating expenses**	**(8,786)**	**(60,391)**	**(13,146)**	**(4,806)**	**(87,129)**
− **Profit before tax**	**31,623**	**41,969**	**21,558**	**13,197**	**108,347**
− Income tax expense	(4,867)	(5,399)	(3,214)	2,966	**(10,514)**
− **Profit for the period**	**26,756**	**36,570**	**18,344**	**16,163**	**97,833**
31 December 2018					
Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	-	**10,372,582**
Total customer accounts reported	3,323,257	5,103,971	1,017,518	-	**9,444,746**
Total credit related commitments and performance guarantees	1,578,218	246,639	246,825	-	**2,071,682**

155 Segment Analysis (Continued)

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

In thousands of GEL	**31 March 2019**	**31 December 2018**
Total segment assets (gross loans and advances to customers)	10,366,914	10,372,582
Credit loss allowance (provision for loan impairment for comparatives)	(337,594)	(334,130)
Cash and cash equivalents	921,918	1,164,403
Mandatory cash balances with National Bank of Georgia	1,416,082	1,422,809
Due from other banks	22,112	37,384
Investment securities measured at fair value through other comprehensive income	836,482	1,005,239
Bonds carried at amortised cost	624,021	653,703
Current income tax prepayment	11,088	2,159
Deferred income tax asset	1,868	1,992
Other financial assets	110,228	154,259
Investments in finance leases	208,243	203,802
Other assets	193,344	177,923
Premises and equipment	364,457	366,071
Intangible assets	118,681	108,505
Investment properties	84,055	84,296
Goodwill	29,459	29,459
Investments in Subsidiaries and Associates	2,601	2,432
Repurchase Receivables	89,768	-
Right of use assets	58,452	-
Total assets per statement of financial position	**15,122,179**	**15,452,888**

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

In thousands of GEL	**31 March 2019**	**31 December 2018**
Total segment liabilities (customer accounts)	9,294,456	9,444,746
Due to Credit institutions	2,692,585	3,031,505
Debt securities in issue	13,415	13,343
Current income tax liability	37	63
Deferred income tax liability	19,337	22,237
Provisions for liabilities and charges	13,376	13,817
Other financial liabilities	150,598	78,205
Other liabilities	56,019	86,296
Subordinated debt	664,330	650,919
Total liabilities per statement of financial position	**12,904,153**	**13,341,131**

16 Interest Income and Expense

In thousands of GEL	31 March 2019	31 March 2018
Interest income calculated using effective interest method		
Loans and advances to customers	292,055	256,054
Bonds carried at amortised cost	19,934	13,168
Investment securities measured at fair value through OCI	9,420	8,037
Due from other banks	5,516	4,797
Other interest income		
Investments in leases	10,631	7,672
Total interest income	**337,556**	**289,728**
Interest expense		
Customer accounts	77,026	63,400
Due to credit institutions	49,246	42,004
Subordinated debt	15,672	9,640
Debt securities in issue	270	407
Lease liability	587	-
Total interest expense	**142,801**	**115,451**
Net interest income	**194,755**	**174,277**

During the three months ended 31 March 2019 the interest income on impaired loans amounted to GEL 12,724 thousand (31 March 2018: GEL 10,343 thousand).

17 Fee and Commission Income and Expense

In thousands of GEL	31 March 2019	31 March 2018
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Card operations	28,486	21,736
- Settlement transactions	17,619	16,238
- Guarantees issued	5,857	4,220
- Cash transactions	3,169	4,445
- Issuance of letters of credit	1,040	1,072
- Foreign exchange operations	757	490
- Other	3,977	1,739
Total fee and commission income	**60,905**	**49,940**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Card operations	14,350	10,467
- Settlement transactions	2,748	2,138
- Cash transactions	1,017	1,117
- Guarantees received	402	306
- Foreign exchange operations	28	2
- Letters of credit	389	260
- Other	148	1,618
Total fee and commission expense	**19,082**	**15,908**
Net fee and commission income	**41,823**	**34,032**

18 Other Operating Income

In thousands of GEL	**31 March 2019**	**31 March 2018**
Gain from sale of investment properties	148	1,041
Revenues from operational leasing	863	1,575
Gain from sale of inventories of repossessed collateral	260	105
Revenues from sale of cash-in terminals	214	1,026
Revenues from non-credit related fines	21	84
Gain on disposal of premises and equipment	1,231	45
Other	931	2,372
Total other operating income	**3,668**	**6,248**

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the inventories of repossessed collateral disposed of in the period ended 31 March 2019 was GEL 3,146 thousand (31 March 2018: GEL 5,193 thousand).

19 Administrative and Other Operating Expenses

In thousands of GEL	**31 March 2019**	**31 March 2018**
Advertising and marketing services	4,185	4,422
Expenses related to lease contracts*	2,553	5,749
Intangible asset enhancement	2,741	2,494
Professional services	2,878	2,264
Insurance	1,231	815
Taxes other than on income	1,798	1,644
Utility services	1,938	1,734
Premises and equipment maintenance	1,921	969
Communications and supply	1,383	1,034
Stationery and other office expenses	1,042	1,124
Security services	502	496
Business trip expenses	342	312
Transportation and vehicle maintenance	391	378
Personnel training and recruitment	256	176
Charity	1,004	280
Loss on disposal of premises and equipment	232	278
Loss on disposal of Investment property	-	31
Loss on disposal of inventories	14	20
Impairment of Premises & Equipment	(2)	(126)
Reversal of previously written-down current assets to fair value less costs to sell	-	(3)
Other	3,148	3,185
Total administrative and other operating expenses	**27,557**	**27,276**

*as at 1 January 2019, the group adopted IFRS 16, under which contracts that do not qualify for lease arrangements, short-term lease expenses, low-value lease expenses and non-lease components of contracts (GEL 1,701 thousand, GEL 152 thousand, GEL 300 thousand and GEL 588 thousand for the three months period ended) are expensed under this category of administrative expenses, previously recognized in rent expenses under IAS 17.

20 Income Taxes

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

21 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**	**Lease Liabilities**	**Total**
Net debt at 1 January 2019	**2,872,071**	**13,343**	**650,919**	**-**	**3,536,333**
Cash flows	(553,376)	(143)	(5,321)	(3,744)	**(562,584)**
Foreign exchange adjustments	7,543	59	3,639	324	**11,565**
Other non-cash movements	45,565	156	15,093	61,697	**122,511**
Net debt at 31 March 2019	**2,371,803**	**13,415**	**664,330**	**58,277**	**3,107,825**

	Liabilities from financing activities			
In thousands of GEL	**Other borrowed funds**	**Debt Securities in Issue**	**Subordinated debt**	**Total**
Net debt at 1 January 2018	**2,558,496**	**20,695**	**426,788**	**3,005,979**
Cash flows	(330,103)	(816)	(5,848)	**(336,767)**
Foreign exchange adjustments	(85,085)	(915)	(28,511)	**(114,511)**
Other non-cash movements	38,132	407	9,629	**48,168**
Net debt at 31 March 2018	**2,181,440**	**19,371**	**402,058**	**2,602,869**

22 Financial and Other Risk Management

TBC Bank'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 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.

22 Financial and Other Risk Management (Continued)

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 Management Board of the Group and, the Supervisory Board and Senior Management of the Bank 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.

The strong and independent structure enables fulfilment 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 of the Group and the Supervisory Board and the Senior Management of the Bank 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.

22 Financial and Other Risk Management (Continued)

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 24.

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.

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.

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, SME, Retail and Micro 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. 1. 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

22 Financial and Other Risk Management (Continued)

Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Starting from May 2018 National Bank of Georgia initiated a new regulation setting limits for loans disbursed without through income verification. Limits are outlined as 25% and 15% of regulatory capital respectively for unsecured loans and loans secured by real estate. Currently the internal procedures for such loan disbursements are being changed and a service is being set up with the Revenue Service, which will enable the Bank to verify the income of the borrowers online. Together with the new regulation, the government is introducing initiatives to ensure continuous broad access to financing. These include simplification of the tax code to incentivize income registration rate. Moreover, the Bank is in dialogue with the regulator to determine appropriate income verification techniques including analytical approaches.

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 portfolio’s 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 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 redefined 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 mitigants 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 primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category. 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.

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

22 Financial and Other Risk Management (Continued)

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.

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.

The geographical concentration of the Group’s assets and liabilities as of 31 March 2019 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	601,924	316,587	3,407	**921,918**
Due from other banks	3,208	12,841	6,063	**22,112**
Mandatory cash balances with National Bank of Georgia	1,416,082	-	-	**1,416,082**
Loans and advances to customers	9,525,786	366,113	137,421	**10,029,320**
Investment securities measured at fair value through other comprehensive income	473,879	362,603	-	**836,482**
Bonds carried at amortised cost	624,021	-	-	**624,021**
Investments in leases	207,038	-	1,205	**208,243**
Repurchase receivables	89,768	-	-	**89,768**
Other financial assets	109,671	335	222	**110,228**
Total financial assets	**13,051,377**	**1,058,479**	**148,318**	**14,258,174**
Non-financial assets	**860,432**	**75**	**3,498**	**864,005**
Total assets	**13,911,809**	**1,058,554**	**151,816**	**15,122,179**
Liabilities				
Due to credit institutions	648,022	1,922,234	122,329	**2,692,585**
Customer accounts	7,802,885	751,116	740,455	**9,294,456**
Debt securities in issue	7,980	-	5,435	**13,415**
Other financial liabilities	150,278	310	10	**150,598**
Subordinated debt	94,820	428,713	140,797	**664,330**
Total financial liabilities	**8,703,985**	**3,102,373**	**1,009,026**	**12,815,384**
Non-financial liabilities	**86,479**	**651**	**1,639**	**88,769**
Total liabilities	**8,790,464**	**3,103,024**	**1,010,665**	**12,904,153**
Net balance sheet position	**5,121,345**	**(2,044,470)**	**(858,849)**	**2,218,026**
Performance guarantees	**548,201**	**243,157**	**219,692**	**1,011,050**
Credit related commitments	**1,112,147**	**3,543**	**2,050**	**1,117,740**

22 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	648,068	515,159	1,176	1,164,403
Due from other banks	18,485	12,852	6,047	37,384
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	1,422,809
Loans and advances to customers	9,526,936	121,712	389,804	10,038,452
Investment securities measured at fair value through other comprehensive income	1,004,564	-	675	1,005,239
Bonds carried at amortised cost	653,703	-	-	653,703
Investments in leases	202,850	-	952	203,802
Other financial assets	153,640	329	290	154,259
Total financial assets	**13,631,055**	**650,052**	**398,944**	**14,680,051**
Non-financial assets	**769,139**	**56**	**3,642**	**772,837**
Total assets	**14,400,194**	**650,108**	**402,586**	**15,452,888**
Liabilities				
Due to credit institutions	1,154,329	1,811,299	65,877	3,031,505
Customer accounts	7,882,839	697,753	864,154	9,444,746
Debt securities in issue	7,927	-	5,416	13,343
Other financial liabilities	77,870	296	39	78,205
Subordinated debt	94,263	420,031	136,625	650,919
Total financial liabilities	**9,217,228**	**2,929,379**	**1,072,111**	**13,218,718**
Non-financial liabilities	**121,395**	**525**	**493**	**122,413**
Total liabilities	**9,338,623**	**2,929,904**	**1,072,604**	**13,341,131**
Net balance sheet position	**5,061,571**	**(2,279,796)**	**(670,018)**	**2,111,757**
Performance guarantees	**684,844**	**291,795**	**219,208**	**1,195,847**
Credit related commitments	**870,446**	**3,751**	**1,638**	**875,835**

22 Financial and Other Risk Management (Continued)

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As of 31 March 2019, the Bank maintained an aggregate open currency position of 0.4% of regulatory capital (31 December 2018:7.6%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. In 2016 within 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:

	As of 31 March 2019				**As of 31 December 2018**			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net balance sheet position**
Georgian Lari	5,864,308	4,426,642	(15,623)	**1,422,043**	5,915,034	4,751,326	86,122	**1,249,830**
US Dollars	6,800,692	7,431,451	652,754	**21,995**	7,289,483	7,431,595	323,246	**181,134**
Euros	1,505,645	871,748	(630,362)	**3,535**	1,374,805	948,620	(409,565)	**16,620**
Other	87,529	85,511	(1,543)	**475**	100,729	87,165	(463)	**13,101**
Total	**14,258,174**	**12,815,352**	**5,226**	**1,448,048**	**14,680,051**	**13,218,706**	**(660)**	**1,460,685**

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 three months ended 31 March 2019 and the year ended 31 December 2018 the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**31 March 2019**	**31 December 2018**
Maximum loss (VAR, 99% confidence level)	(2,025)	(6,758)
Maximum loss (VAR, 95% confidence level)	(1,402)	(4,683)

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.

22 Financial and Other Risk Management (Continued)

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

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. 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 March 2019					
Total financial assets	5,065,438	3,282,068	1,004,809	4,906,766	**14,259,081**
Total financial liabilities	4,577,360	2,956,832	912,288	4,369,845	**12,816,325**
Net interest sensitivity gap as of 31 March 2019	**488,078**	**325,236**	**92,521**	**536,921**	**1,442,756**
31 December 2018					
Total financial assets	4,776,646	3,596,006	1,009,348	5,298,973	**14,680,973**
Total financial liabilities	4,565,789	3,327,654	1,026,112	4,300,095	**13,219,650**
Net interest sensitivity gap as of 31 December 2018	**210,857**	**268,352**	**(16,764)**	**998,878**	**1,461,323**

As of 31 March 2019 if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 7.3 million higher (31 December 2018: GEL 4.4 million), mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 8.4 million higher (31 March 2018: GEL 8.0 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 7.3 million lower (31 December 2018: GEL 4.4 million), mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 7.6 million lower (2018: GEL 5.9 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 independent international consulting firm from “big 4” 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.

22 Financial and Other Risk Management (Continued)

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. 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.

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

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

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses the Liquidity Coverage ratio and the Net Stable Funding ratio set forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests, what if and scenarios analysis. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank 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 bands 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 set 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 107.9% and 106.3%, at the 31 March 2019 and 31 December 2018, respectively.

22 Financial and Other Risk Management (Continued)

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 ratio 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.

As of 31 March the ratios were well above the prudential limit set by the NBG as follows:

	31 March 2019	**31 December 2018**
Average Liquidity Ratio	35.9%	33.3%
Total Liquidity Coverage Ratio	117.5%	113.9%
GEL Liquidity Coverage Ratio	111.9%	102.5%
FX Liquidity Coverage Ratio	122.2%	121.1%

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 March 2019 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 March 2019 is as follows:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to Credit institutions	501,869	450,483	1,912,098	197,429	**3,061,879**
Customer accounts – individuals	2,980,634	1,357,837	664,455	25,563	**5,028,489**
Customer accounts – other	3,811,313	316,817	113,893	157,842	**4,399,865**
Other financial liabilities	148,600	589	1,409	-	**150,598**
Subordinated debt	33,722	43,231	413,622	587,670	**1,078,245**
Debt securities in issue	5,802	8,222	-	-	**14,024**
Gross settled forwards	749,420	16,633	-	-	**766,053**
Performance guarantees	95,543	268,275	639,034	8,233	**1,011,085**
Financial guarantees and letter of credit	289,477	-	-	-	**289,477**
Other credit related commitments	828,263	-	-	-	**828,263**
Total potential future payments for financial obligations	**9,444,643**	**2,462,087**	**3,744,511**	**976,737**	**16,627,978**

22 Financial and Other Risk Management (Continued)

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	137,274	195,007	**4,362,393**
Other financial liabilities	72,399	5,806	-	-	**78,205**
Subordinated debt	5,573	71,519	415,090	588,197	**1,080,379**
Debt securities in issue	366	13,847	-	-	**14,213**
Gross settled forwards	567,259	16,008	-	-	**583,267**
Performance guarantees	119,994	349,354	671,333	55,166	**1,195,847**
Financial guarantees and letter of credit	105,973	-	-	-	**105,973**
Other credit related commitments	769,863	-	-	-	**769,863**
Total potential future payments for financial obligations	**9,566,224**	**2,446,011**	**3,762,115**	**1,053,221**	**16,827,571**

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.

22 Financial and Other Risk Management (Continued)

As of 31 March 2019 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	921,918	-	-	-	**921,918**
Due from other banks	18,337	-	3,775	-	**22,112**
Mandatory cash balances with National Bank of Georgia	1,416,082	-	-	-	**1,416,082**
Loans and advances to customers	1,134,723	1,870,461	4,161,951	2,862,185	**10,029,320**
Investment securities measured at fair value through other comprehensive income	836,482	-	-	-	**836,482**
Bonds carried at amortised cost	13,382	150,219	392,281	68,139	**624,021**
Repurchase receivables	44,720	45,048	-	-	**89,768**
Finance lease receivables	34,672	55,011	113,833	4,727	**208,243**
Other financial assets	108,411	1,813	4	-	**110,228**
Total financial assets	**4,528,727**	**2,122,552**	**4,671,844**	**2,935,051**	**14,258,174**
Liabilities					
Due to Credit institutions	485,888	351,322	1,672,421	182,954	**2,692,585**
Customer accounts	949,708	118,832	-	8,225,916	**9,294,456**
Debt securities in issue	5,547	7,868	-	-	**13,415**
Other financial liabilities	148,600	589	1,409	-	**150,598**
Subordinated debt	26,782	9,512	183,955	444,081	**664,330**
Total financial liabilities	**1,616,525**	**488,123**	**1,857,785**	**8,852,951**	**12,815,384**
Credit related commitments and performance guarantees					
Performance guarantees	4,324	-	-	-	**4,324**
Financial guarantees	5,052	-	-	-	**5,052**
Other credit related commitments	106,334	-	-	-	**106,334**
Credit related commitments and performance guarantees	**115,710**	-	-	-	**115,710**
Net liquidity gap as of 31 March 2019	**2,796,492**	**1,634,429**	**2,814,059**	**(5,917,900)**	**1,327,080**
Cumulative gap as of 31 March 2019	**2,796,492**	**4,430,921**	**7,244,980**	**1,327,080**	

22 Financial and Other Risk Management (Continued)

The management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.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	1,164,403	-	-	-	**1,164,403**
Due from other banks	25,471	8,075	3,838	-	**37,384**
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 measured at fair value through other comprehensive income	1,005,239	-	-	-	**1,005,239**
Bonds carried at amortised cost	118,989	92,877	368,843	72,994	**653,703**
Finance lease receivables	31,134	56,432	113,087	3,149	**203,802**
Other financial assets	132,270	20,325	1,664	-	**154,259**
Total financial assets	**4,990,836**	**2,233,858**	**4,639,868**	**2,815,489**	**14,680,051**
Liabilities					
Due to Credit institutions	933,513	271,993	1,653,575	172,424	**3,031,505**
Customer accounts	1,007,472	129,666	-	8,307,608	**9,444,746**
Debt securities in issue	112	13,231	-	-	**13,343**
Other financial liabilities	72,399	5,806	-	-	**78,205**
Subordinated debt	3,049	23,245	182,986	441,639	**650,919**
Total financial liabilities	**2,016,545**	**443,941**	**1,836,561**	**8,921,671**	**13,218,718**
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	**2,861,445**	**1,789,917**	**2,803,307**	**(6,106,182)**	**1,348,487**
Cumulative gap as of 31 December 2018	**2,861,445**	**4,651,362**	**7,454,669**	**1,348,487**	

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

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. 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.

22 Financial and Other Risk Management (Continued)

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 2 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. Recognizing the resilience of the Georgia's economy and high growth potential, Standard & Poor's improved the outlook to Georgia's credit rating from "stable" to "positive".

Economic growth remained strong in 2018 despite the negative contribution from the elevated volatility in the economic partners of Georgia and contractionary fiscal stance domestically. GDP growth averaged 4.7% in 2018, close to the 4.8% growth of 2017. Economic growth in 2018 was broad-based across almost all sectors of the economy. Manufacturing (+3.4% YoY), trade and repairs (+5.9% YoY), transport and communications (+8.2% YoY), healthcare (+6.2% YoY) and real estate (+12.1% YoY) represented major drivers of growth in 2018, while almost all other sectors of the economy also posted growth rates. Construction sector declined by 3.1% YoY mostly due to the finalization of the construction of BP's SCPX project and some underperformance in the public infrastructure spending, while the construction of residential and non-residential buildings maintained solid growth. In the first 2 months of 2019, real GDP growth averaged 4.1% YoY, per initial estimates of GeoStat.

Positive tendency of the CA balance improvement continued in Q4 2018 as well with CA deficit to GDP ratio at 7.7% of GDP in 2018 compared to 8.8% in 2017, mostly to be attributed to the robust growth of tourism, exports and remittance inflows as well as the narrower income account deficit for 2018.

As of the end of March 2019, USD/GEL exchange rate of GEL depreciated by 11.5% YoY, while EUR/GEL exchange rate depreciated by more modest 1.5% YoY. Real effective exchange rate depreciated slightly by 0.1% YoY over the same period.

Inflation remained somewhat below but close to the central bank's target of 3% over 2018 with December 2018 CPI inflation standing at 1.5% YoY. Annual inflation accelerated to 3.7% in March 2019, mostly reflecting the higher excise taxes on tobacco. The National Bank of Georgia reduced the monetary policy rate twice, from 7.00% in the beginning of 2019 to 6.50% as of the end of March 2019.

Budget deficit stood at an estimated 2.5% of GDP in 2018, 1.4 PP lower compared to the same figure of 2017. Public debt levels remained stable at 43.9% in 2018, slightly lower compared to 44.2% in 2017.

Bank loans-to-GDP ratio stood at 64.7% in 2018, up by 5.8 PP from end 2017. Bank credit growth stood at 17.1% at constant exchange rate in 2018, driven by the growth of loans in national currency (+19.4% YoY) as well as in foreign currency (+15.7% YoY, excluding FX effect). As of the end of Q1 2019, bank loans growth slowed to 14.0% YoY at constant currency terms mostly owing to the slower retail lending as a result of the regulations introduced by the Central bank since the beginning of 2019.

According to the IMF's recently published World Economic Outlook[2], Georgian economy is projected to increase at 4.6% in 2019 and 5.0% in 2020. Thereafter, the economy is expected to expand at 5.2%.

[2] IMF WEO April 2019 update

23 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 the three months periods ended 31 March 2019 and the year 2018.

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 table below presents the capital adequacy ratios as well as minimum requirements set by the NBG.

In thousands of GEL	**31 March 2019**	**31 December 2018**
Tier 1 Capital	1,746,745	1,678,716
Tier 2 Capital	674,716	672,553
Regulatory capital	**2,421,461**	**2,351,269**
Risk-weighted Exposures		
Credit Risk Weighted Exposures	11,162,746	11,458,497
Risk Weighted Exposures for Market Risk	10,002	179,381
Risk Weighted Exposures for Operational Risk	1,516,993	1,516,993
Total Risk-weighted Exposures	**12,689,741**	**13,154,871**
Minimum Tier 1 ratio	**11.9%**	**11.8%**
Tier 1 Capital adequacy ratio	**13.8%**	**12.8%**
Minimum total capital adequacy ratio	**16.9%**	**16.7%**
Total Capital adequacy ratio	**19.1%**	**17.9%**

23 Management of Capital (Continued)

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 March 2019 and 31 December 2018 are given in the tables below:

	31 March 2019	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	3,799,165	1,552,799
Gross loans and accrued interests,	9,216,836	7,160,201
Repossessed Assets	51,064	51,064
Fixed Assets and intangible assets	571,455	287,235
Other assets	1,339,833	1,387,888
minus general provision, penalty and interest provision	(36,825)	(36,825)
Total	**14,941,528**	**10,402,362**
Total Off-balance	**2,774,392**	**760,384**
Market Risk	**10,002**	**10,002**
Operational Risk	**809,063**	**1,516,993**
Total Amount	**18,534,985**	**12,689,741**

	2018	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures 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**

23 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	**31 March 2019**	**31 December 2018**
Tier 1 capital		
Share capital	542,204	542,204
Retained earnings and disclosed reserves	1,616,153	1,509,990
Less: Goodwill	(29,459)	(29,459)
Non-controlling interest	473	568
Total tier 1 capital	**2,129,371**	**2,023,303**
Tier 2 capital		
Revaluation reserves	59,115	58,995
General Reserve	130,915	129,739
Subordinated debt (included in tier 2 capital)	477,121	548,508
Subordinated bond (included in tier 2 capital)	73,966	-
Total tier 2 capital	**741,117**	**737,242**
Total capital	**2,870,488**	**2,760,545**
Credit risk weighted assets (including off-balance obligations)	10,473,189	10,379,124
Less: General Reserve	(206,680)	(204,391)
Market Risk	108,072	210,916
Total Risk-weighted assets	**10,374,581**	**10,385,649**
Minimum Tier 1 ratio	**4.0%**	**4.0%**
Tier 1 Capital adequacy ratio	**20.5%**	**19.5%**
Minimum total capital adequacy ratio	**8.0%**	**8.0%**
Total Capital adequacy ratio	**27.7%**	**26.6%**

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).

23 Management of Capital (Continued)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of 31 March 2019 and 31 December 2018 provided in the tables below:

In thousands of GEL	31 March 2019	
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 fair value through other comprehensive income	3,912,984	196,296
Gross loans and accrued interests	10,366,914	8,282,215
Repossessed assets	133,869	133,869
Fixed assets and intangible assets	571,050	541,591
Other assets	474,876	474,876
Total	**15,459,693**	**9,628,847**
Total Off-balance	**2,913,794**	**844,342**
Less: Loan loss provision minus General Reserve	(206,680)	(206,680)
Market Risk	**108,072**	**108,072**
Total Amount	**18,274,879**	**10,374,581**

In thousands of GEL	31 December 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 fair value through other comprehensive income	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**

24 Contingencies and Commitments

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these 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 March 2019 and 31 December 2018 no material provision for potential tax liabilities has been recorded.

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including declaration of default. The Group was in compliance with all covenants as of 31 December 2018 and as of 31 March 2019 and over the reporting period.

24 Contingencies and Commitments (Continued)

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.

Performance 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 and performance guarantees are as follows:

In thousands of GEL	**31 March 2019**	**31 December 2018**
Undrawn credit lines	828,263	769,863
Letters of credit issued	90,626	105,972
Financial guarantees issued	198,851	-
Total gross credit related commitments	**1,117,740**	**875,835**
Credit loss allowance for credit related commitments	(5,052)	(5,424)
Total net credit related commitments	**1,112,688**	**870,411**

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 March 2019 included in undrawn credit lines above were GEL 354,446 thousand (31 December 2018: GEL 344,360 thousand).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of March 2019 is GEL 1,011,085 thousand and GEL 4,324 thousand (December 2018: GEL 1,195,847 thousand and GEL 4,393 thousand).

24 Contingencies and Commitments (Continued)

Fair value of credit related commitments and performance guarantees were GEL 9,376 thousand as of 31 March 2019 (31 December 2018: GEL 9,817 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	**31 March 2019**	**31 December 2018**
Georgian Lari	872,705	854,000
US Dollars	978,555	955,829
Euro	230,320	218,091
Other	47,245	43,762
Total	**2,128,825**	**2,071,682**

Capital expenditure commitments. As of 31 March 2019, the Group has contractual capital expenditure commitments amounting to GEL 14,338 thousand (31 December 2018: GEL 12,210 thousand).

25 Fair Value Disclosures

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 March 2019				31 December 2018			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities measured at fair value through other comprehensive income								
- Certificates of Deposits of National Bank of Georgia	-	9,846	-	**9,846**	-	14,985	-	**14,985**
- Corporate bonds	-	547,796	-	**547,796**	-	549,477	-	**549,477**
- Netherlands Government Bonds					-	66,760	-	**66,760**
- Ministry of Finance Treasury Bills	-	277,133	-	**277,133**	-	373,447	-	**373,447**
Repurchase receivables								
- Ministry of Finance Treasury Bills	-	52,655	-	**52,655**	-	-	-	**-**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	6,246	-	**6,246**	-	1,370	-	**1,370**
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	-	-	278,911	**278,911**	-	-	277,798	**277,798**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**893,676**	**278,911**	**1,172,587**	**-**	**1,006,039**	**277,798**	**1,283,837**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**-**	999	**-**	**999**	-	2,030	-	**2,030**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**999**	**-**	**999**	-	2,030	-	**2,030**

There were no transfers between levels during the three months ended 31 March 2019 (2018: none).

25 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements (continued)

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

In thousands of GEL	Fair value		Valuation technique	Inputs used
	31 March 2019	**31 December 2018**		
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds (repurchase receivables)	887,430	1,004,669	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	6,246	1,370	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**893,676**	**1,006,039**		
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
Other financial liabilities				
- Interest rate swaps included in other financial liabilities	-	-	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	999	2,030	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**999**	**2,030**		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the three month period ended 31 March 2019 (2018: none).

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 8. 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.

25 Fair Value Disclosures (Continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 March 2019				31 December 2018			
In thousands of GEL	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS								
Cash and cash equivalents	536,825	385,093	-	**921,918**	491,891	672,512	-	**1,164,403**
Due from other banks	-	22,112	-	**22,112**	-	37,384	-	**37,384**
Mandatory cash balances with the NBG	-	1,416,082	-	**1,416,082**	-	1,422,809	-	**1,422,809**
Loans and advances to customers:								
- Corporate loans	-	-	3,411,436	**3,282,538**	-	-	3,212,490	**3,095,784**
- Consumer loans	-	-	1,852,859	**1,727,766**	-	-	1,970,006	**1,832,793**
- Mortgage loans	-	-	2,682,990	**2,670,992**	-	-	2,702,768	**2,684,295**
- MSME	-	-	2,385,606	**2,348,024**	-	-	2,440,078	**2,425,580**
Repurchase receivables	-	37,148	-	**37,113**	-	-	-	**-**
Bonds carried at amortised cost	-	633,187	-	**624,021**	-	660,915	-	**653,703**
Investments in leases	-	-	208,316	**208,243**	-	-	207,579	**203,802**
Other financial assets	-	-	103,982	**103,982**	-	-	152,889	**152,889**
NON-FINANCIAL ASSETS								
Investment properties, at cost	-	-	96,918	**84,055**	-	-	97,425	**84,296**
TOTAL ASSETS	**536,825**	**2,493,622**	**10,742,107**	**13,446,846**	**491,891**	**2,793,620**	**10,783,235**	**13,757,738**
FINANCIAL LIABILITIES								
Due to credit institutions	-	2,692,170	-	**2,692,585**	-	3,028,182	-	**3,031,505**
Customer accounts	-	5,652,250	3,658,413	**9,294,456**	-	5,891,364	3,569,222	**9,444,746**
Debt securities in issue	-	13,415	-	**13,415**	-	13,343	-	**13,343**
Other financial liabilities	-	149,599	-	**149,599**	-	76,175	-	**76,175**
Subordinated debt	-	662,325	-	**664,330**	-	648,803	-	**650,919**
TOTAL LIABILITIES	**-**	**9,169,759**	**3,658,413**	**12,814,385**	**-**	**9,657,867**	**3,569,222**	**13,216,688**

The fair values of financial assets and liabilities in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives.

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount.

There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the three months ended 31 March 2019 (2018: none).

26 Related Party Transactions

Pursuant to IAS 24 “Related Party Disclosures”, parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

- Parties with more than 10% of ownership stake in the Group, exercising significant influence over the group or with representatives in the Supervisory Board are considered as Significant Shareholders.
- The key management personnel include members of the Group’s Management Board and their close family members.

Transactions between TBC Bank and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

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

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% - 36.0 %; effective interest rate: 0.4% - 36.0%)	-	1,072	11,336	-
Credit loss allowance for loans and advances to customers	-	-	2	-
Performance guarantees	-	5,428	-	35
Credit loss allowance of Guarantees	-	23	-	-
Customer accounts (contractual interest rate: 0.0% – 11.5%;	115,370	17,931	9,028	12,000

The income and expense items with related parties except from key management compensation during 31 March 2019 were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Interest income - loans and advances to customers	-	19	174	-
Interest expense	1,546	4	58	205
Gains less losses from trading in foreign currencies	20	22	12	105
Foreign exchange translation gains less losses	-	(2)	40	-
Fee and commission income	2	20	9	6
Administrative and other operating expenses (excluding staff costs)	-	31	85	-

26 Related Party Transactions (Continued)

The aggregate loan amounts advanced to, and repaid, by related parties during 31 March 2019 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	65	2,448	-
Amounts repaid by related parties during the year	(625)	(2,733)	-

During the three months 2019, no related parties have been removed from the insider list. During the year 2018, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2018 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2018 would have been GEL 214,767 thousand lower.

As of 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of GEL	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 0.4% – 48.0%; effective interest rate: 0.4% - 36.0%)	-	1,614	11,407	-
Credit loss allowance for loans and advances to customers	-	-	9	-
Customer accounts (contractual interest rate: 0.0% – 10.2 %;	81,311	27,095	21,328	11,123
Performance guarantees	-	10,216	-	35
Credit loss allowance of guarantees	-	36	-	-

The income and expense items with related parties except from key management compensation during 31 March 2018 were as follows:

In thousands of GEL	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Interest income - loans and advances to customers	-	5	127	-
Interest expense	324	116	62	157
Gains less losses from trading in foreign currencies	32	32	9	-
Foreign exchange translation gains less losses	-	4	(456)	-
Fee and commission income	-	18	13	-
Administrative and other operating expenses (excluding staff costs)	-	12	40	-

Aggregate amounts of loans advanced to and repaid by related parties during the three months ended 31 March 2018 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	161	3,055	-
Amounts repaid by related parties during the year	(151)	(1,928)	-

26 Related Party Transactions (Continued)

The compensation of the Group Supervisory Board and the Bank's Management Board is presented below:

In thousands of GEL	Expense over the three months ended		Accrued liability as of	
	31 March 2019	31 March 2018	31 March 2019	31 December 2018
Salaries and bonuses	1,642	2,397	-	270
Cash settled bonuses related to share-based compensation	(1,627)	3,519	-	8,395
Equity-settled share-based compensation	4,581	2,839	-	-
Total	**4,596**	**8,755**	**-**	**8,665**

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

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
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
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

TBC BANK GROUP

International Financial Reporting Standards Consolidated and Separate Financial Statements and Independent Auditor's Report

For the year ended 31 December 2018

CONTENTS

Independent Auditor's Report

Consolidated Statements of Financial Position 4
Separate Statements of Financial Position 5
Consolidated Statements of Profit or Loss and Other Comprehensive Income 6
Separate Statements of Profit or Loss and Other Comprehensive Income 7
Consolidated Statements of Changes in Equity 8
Separate Statements of Changes in Equity 10
Consolidated Statements of Cash Flows 12
Separate Statements of Cash Flows 13

Notes to the Consolidated and Separate Financial Statements

1 Introduction 14
2 Summary of Significant Accounting Policies 15
3 Critical Accounting Estimates and Judgements in Applying Accounting Policies 36
4 Adoption of New or Revised Standards and Interpretations 36
5 New Accounting Pronouncements 39
6 Cash and Cash Equivalents 41
7 Due from Other Banks 42
8 Mandatory cash balances with the National Bank of Georgia 42
9 Loans and Advances to Customers 42
10 Investment Securities Measured at Fair Value through Other Comprehensive Income 54
11 Bonds Carried at Amortised Cost 55
12 Other Financial Assets 56
13 Investments in Finance Lease 62
14 Other Assets 66
15 Premises, Equipment and Intangible Assets 67
16 Investment Properties 69
17 Goodwill 70
18 Due to Credit Institutions 72
19 Customer Accounts 72
20 Debt Securities in Issue 73
21 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges 74
22 Other Financial Liabilities 74
23 Other Liabilities 75
24 Subordinated Debt 75
25 Share Capital 77
26 Share Based Payments 77
27 Segment Analysis 80
28 Interest Income and Expense 85
29 Fee and Commission Income and Expense 85
30 Other Operating Income 86
31 Staff Costs 86
32 Administrative and Other Operating Expenses 87
33 Income Taxes 88
34 Net Debt Reconciliation 91
35 Financial and Other Risk Management 91
36 Management of Capital 110
37 Contingencies and Commitments 114
38 Non-Controlling Interest 116
39 Offsetting Financial Assets and Financial Liabilities 118
40 Derivative Financial Instruments 121
41 Fair Value Disclosures 122
42 Presentation of Financial Instruments by Measurement Category 125
43 Related Party Transactions 127
44 Business Combination 132
45 Events after Reporting Period 133

Independent Auditor's Report

To the Shareholders and Management of TBC Bank JSC:

Our opinion

In our opinion, the consolidated and separate financial statements (the 'financial statements') present fairly, in all material respects, the consolidated and separate financial position of TBC Bank JSC (the 'Bank') and its subsidiaries (together - the 'Group') as at 31 December 2018, 2017 and 2016 and its consolidated and separate financial performance and its consolidated and separate cash flows for the years then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited

The financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2018, 2017 and 2016;
- the consolidated and separate statements of profit or loss and other comprehensive income for the years then ended;
- the consolidated and separate statements of changes in equity for the years then ended;
- the consolidated and separate statements of cash flows for the years then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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 are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

Management is responsible for the other information. Other information comprises Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

PricewaterhouseCoopers Georgia LLC; King David Business Center, 7th floor, #12 M. Aleksidze Street, Tbilisi 0171, Georgia, Tel: +995 (32) 250 80 50, www.pwc.com/ge

pwc

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Based on the work performed in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial years for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines 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, management is responsible for assessing the Group's and the Bank'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 management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)

25 April 2019
Tbilisi, Georgia

TBC Bank Group Consolidated Statements of Financial Position

In thousands of GEL	Note	31 December 2018	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents	6	1,164,403	1,428,771	944,767
Due from other banks	7	37,384	37,789	23,824
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	653,703	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		2,159	19,084	7,429
Deferred income tax asset	33	1,992	2,605	3,265
Other financial assets	12	154,259	134,135	91,895
Other assets	14	177,923	147,792	170,756
Premises and equipment	15	366,071	366,065	313,584
Intangible assets	15	108,505	83,072	60,698
Goodwill	17	29,459	26,892	26,892
Investments in Associates		2,432	1,278	-
TOTAL ASSETS		**15,452,888**	**12,937,198**	**10,761,759**
LIABILITIES				
Due to credit institutions	18	3,031,505	2,644,714	2,199,976
Customer accounts	19	9,444,746	7,835,323	6,461,582
Other financial liabilities	22	78,205	79,774	50,153
Current income tax liability		63	447	2,579
Debt securities in issue	20	13,343	20,695	23,508
Deferred income tax liability	33	22,237	602	5,646
Provisions for liabilities and charges	21	13,817	10,306	15,294
Other liabilities	23	86,296	70,187	62,851
Subordinated debt	24	650,919	426,788	368,381
TOTAL LIABILITIES		**13,341,131**	**11,088,836**	**9,189,970**
EQUITY				
Share capital	25	21,014	21,014	20,617
Share premium	25	521,190	521,190	504,161
Retained earnings		1,543,581	1,244,206	960,060
Share based payment reserve	26	(33,591)	(7,272)	23,327
Revaluation reserve for premises		57,153	70,038	70,460
Fair value reserve		8,775	-	-
Revaluation reserve for available-for-sale securities		-	1,809	(3,681)
Cumulative currency translation reserve		(6,933)	(7,358)	(7,538)
Net assets attributable to owners		**2,111,189**	**1,843,627**	**1,567,406**
Non-controlling interest	38	**568**	**4,735**	**4,383**
TOTAL EQUITY		**2,111,757**	**1,848,362**	**1,571,789**
TOTAL LIABILITIES AND EQUITY		**15,452,888**	**12,937,198**	**10,761,759**

The financial statements on pages 4 to 133 were approved by the Supervisory Board on 25 April 2019 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

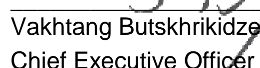
Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 14 to 133 form an integral part of these financial statements.

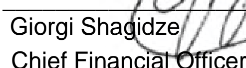
TBC Bank Separate Statements of Financial Position

In thousands of GEL	Note	31 December 2018	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents		1,155,388	1,417,384	861,001
Due from other banks		28,930	32,519	26,583
Mandatory cash balances with the National Bank of Georgia		1,422,809	1,033,818	859,508
Loans and advances to customers	9	10,079,844	8,347,548	5,691,868
Investment securities measured at fair value through other comprehensive income		1,004,235	-	-
Investment securities available for sale		-	656,934	279,195
Bonds carried at amortised cost		653,893	449,722	373,144
Investment properties		83,422	78,349	66,355
Current income tax prepayment		1,166	17,509	6,597
Other financial assets	12	121,353	110,409	102,007
Other assets		144,437	135,496	156,218
Premises and equipment	15	335,286	343,988	236,001
Intangible assets	15	104,066	78,995	52,305
Goodwill		27,502	24,935	769
Investments in Subsidiaries and Associates		26,350	32,449	382,355
TOTAL ASSETS		**15,188,681**	**12,760,055**	**9,093,906**
LIABILITIES				
Due to credit institutions		2,859,090	2,515,633	1,389,020
Customer accounts		9,481,716	7,883,369	5,666,661
Other financial liabilities	22	45,347	35,513	21,351
Deferred income tax liability	33	22,237	602	1,715
Provisions for liabilities and charges	21	13,817	10,306	13,797
Other liabilities		82,258	66,509	57,103
Subordinated debt		623,863	424,175	368,381
TOTAL LIABILITIES		**13,128,328**	**10,936,107**	**7,518,028**
EQUITY				
Share capital		21,014	21,014	20,617
Share premium		521,190	521,190	504,161
Retained earnings		1,485,812	1,217,169	957,316
Share based payment reserve		(33,591)	(7,272)	23,327
Revaluation reserve for premises		57,153	70,038	70,038
Fair value reserve		8,775	-	-
Revaluation reserve for available-for-sale securities		-	1,809	419
TOTAL EQUITY		**2,060,353**	**1,823,948**	**1,575,878**
TOTAL LIABILITIES AND EQUITY		**15,188,681**	**12,760,055**	**9,093,906**

The financial statements on pages 4 to 133 were approved by the Supervisory Board on 25 April 2019 and signed on its behalf by:



Vakhtang Butskhrikidze
Chief Executive Officer



Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 14 to 133 form an integral part of these financial statements.

TBC Bank Group Consolidated Statements of Profit or Loss and Other Comprehensive Income

In thousands of GEL	Note	2018	2017	2016
Interest income	28	1,283,213	1,033,709	766,410
Interest expense	28	(512,655)	(432,142)	(277,122)
Net interest income		**770,558**	**601,567**	**489,288**
Fee and commission income	29	234,626	192,752	142,802
Fee and commission expense	29	(78,134)	(67,951)	(52,110)
Net fee and commission income		**156,492**	**124,801**	**90,692**
Net gains from trading in foreign currencies		91,678	87,099	70,159
Net gains/(losses) from foreign exchange translation		15,503	4,595	(2,528)
Net losses from derivative financial instruments		(204)	(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	30	30,906	31,511	23,214
Share of profit of associates		1,154	909	-
Other operating non-interest income		**139,039**	**124,171**	**99,932**
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 guarantees and credit related commitments	21	(3,486)	390	(771)
Credit loss allowance for other financial assets	12	(16,446)	(12,212)	(2,569)
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		**900,583**	**744,402**	**626,801**
Staff costs	31	(212,469)	(196,826)	(171,304)
Depreciation and amortisation	15,16	(45,278)	(36,882)	(27,980)
(Provision for)/recovery of provision for liabilities and	21	(4,000)	2,495	(2,210)
Administrative and other operating expenses	32	(134,185)	(115,746)	(108,201)
Operating expenses		**(395,932)**	**(346,959)**	**(309,695)**
Profit before tax		**504,651**	**397,443**	**317,106**
Income tax expense	33	(71,351)	(34,662)	(17,421)
Profit for the year		**433,300**	**362,781**	**299,685**
Other comprehensive income (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve	10	6,966	-	-
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		-	-	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	33	(2,442)	(422)	10,928
Other comprehensive income for the year		**15,698**	**5,248**	**540**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**448,998**	**368,029**	**300,225**
Profit is attributable to:				
- Shareholders of TBCG		433,051	362,429	302,491
- Non-controlling interest		249	352	(2,806)
Profit for the year		**433,300**	**362,781**	**299,685**
Total comprehensive income is attributable to:				
- Shareholders of TBCG		448,749	367,677	303,031
- Non-controlling interest		249	352	(2,806)
Total comprehensive income for the year		**448,998**	**368,029**	**300,225**

The notes set out on pages 14 to 133 form an integral part of these financial statements.

In thousands of GEL	Note	2018	2017	2016
Interest income		1,244,451	947,126	701,276
Interest expense		(502,331)	(401,955)	(255,633)
Net interest income		**742,120**	**545,171**	**445,643**
Fee and commission income	29	206,555	163,504	120,497
Fee and commission expense	29	(88,769)	(71,935)	(54,650)
Net fee and commission income		**117,786**	**91,569**	**65,847**
Net gains from trading in foreign currencies		91,723	81,625	66,221
Net gains/(losses) from foreign exchange translation		15,706	4,489	(6,802)
Net losses from derivative financial instruments		(204)	(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	8,795
Other operating income		22,847	20,539	40,966
Share of profit of associates		1,092	835	-
Other operating non-interest income		**131,166**	**107,545**	**108,974**
Credit loss allowance for loan to customers	9	(148,443)	(82,841)	(20,674)
Credit loss allowance for investments in finance lease		-	-	-
Credit loss allowance for performance guarantees and credit related commitments		(3,486)	1,285	(1,217)
Credit loss allowance for other financial assets	12	(12,521)	(9,297)	(1,090)
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		**826,536**	**653,432**	**597,472**
Staff costs	31	(194,016)	(173,119)	(149,559)
Depreciation and amortisation		(39,969)	(31,344)	(23,919)
(Provision for)/recovery of provision for liabilities and charges	21	(4,000)	2,495	(2,210)
Administrative and other operating expenses	32	(112,460)	(93,792)	(87,643)
Operating expenses		**(350,445)**	**(295,760)**	**(263,331)**
Profit before tax		**476,091**	**357,672**	**334,141**
Income tax expense		(70,034)	(31,116)	(17,590)
Profit for the year		**406,057**	**326,556**	**316,551**
Other comprehensive income (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve		6,966	-	-
Revaluation of available-for-sale investments		-	6,569	2,112
Gains less losses recycled to profit or loss upon disposal		-	-	(8,853)
Income tax recorded directly in other comprehensive income		-	-	1,401
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		(2,443)	-	10,506
Other comprehensive income for the year		**15,272**	**6,569**	**5,166**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**421,329**	**333,125**	**321,717**

The notes set out on pages 14 to 133 form an integral part of these financial statements.

TBC Bank Group Consolidated Statements of Changes in Equity

In thousands of GEL	Note	Net assets Attributable to owners									Non-controlling interest	Total equity
		Share capital	Share premium	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		
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 for the year		-	-	-	-	-	-	-	302,491	**302,491**	(2,806)	**299,685**
Other comprehensive income		-	-	-	10,928	(9,440)	-	(948)	-	**540**	-	**540**
Total comprehensive income for 2016		**-**	**-**	**-**	**10,928**	**(9,440)**	**-**	**(948)**	**302,491**	**303,031**	**(2,806)**	**300,225**
Share issue		1,031	98,969	-	-	-	-	-	-	**100,000**	**-**	**100,000**
Share based payment	26	-	-	11,783	-	-	-	-	-	**11,783**	**-**	**11,783**
Increase in share capital from SBP		36	1,175	(1,211)	-	-	-	-	-	**-**	-	**-**
Shares repurchased and cancelled		(37)	(3,457)	-	-	-	-	-	-	**(3,494)**	-	**(3,494)**
Dividends declared		-	-	-	-	-	-	-	(55,174)	**(55,174)**	-	**(55,174)**
Balance as of 31 December 2016		**20,617**	**504,161**	**23,327**	**70,460**	**(3,681)**	**-**	**(7,538)**	**960,060**	**1,567,406**	**4,383**	**1,571,789**
Profit for the year		-	-	-	-	-	-	-	362,429	**362,429**	352	**362,781**
Other comprehensive income		-	-	-	(422)	5,490	-	180	-	**5,248**	-	**5,248**
Total comprehensive income for 2017		**-**	**-**	**-**	**(422)**	**5,490**	**-**	**180**	**362,429**	**367,677**	**352**	**368,029**
Share issue		-	29	**-**	-	-	-	-	-	**29**	**-**	**29**
Elimination of unvested share effect		397	17,000	(17,397)	-	-	-	-	-	**-**	**-**	**-**
Share based payment	26	-	-	10,543	-	-	-	-	-	**10,543**	**-**	**10,543**
Share based payment recharge by parent company		-	-	(23,745)	-	-	-	-	-	**(23,745)**	-	**(23,745)**
Dividends declared		**-**	-	-	-	-	-	-	(78,283)	**(78,283)**	-	**(78,283)**

[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.

In thousands of GEL	Note	Share capital	Share pre-mium	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 31 December 2017		**21,014**	**521,190**	**(7,272)**	**70,038**	**1,809**	-	**(7,358)**	**1,244,206**	**1,843,627**	**4,735**	**1,848,362**
Impact of adopting IFRS 9 as at 1 January 2018		-	-	**-**	-	(1,809)	1,809	**-**	(63,658)	**(63,658)**	-	**(63,658)**
Balance as at 1 January 2018		**21,014**	**521,190**	**(7,272)**	**70,038**	-	**1,809**	**(7,358)**	**1,180,548**	**1,779,969**	**4,735**	**1,784,704**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	433,051	**433,051**	249	**433,300**
Other comprehensive income		**-**	**-**	**-**	8,307	-	6,966	425	-	**15,698**	-	**15,698**
Total comprehensive income for 2018		**-**	**-**	**-**	**8,307**	-	**6,966**	**425**	**433,051**	**448,749**	**249**	**448,998**
Purchase of additional interest from NCI		-	-	-	-	-	-	-	4,416	**4,416**	**(4,416)**	**-**
Share based payment	26	-	-	11,691	-	-	-	-	-	**11,691**	**-**	**11,691**
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	-	-	**(38,010)**	-	**(38,010)**
Dividends declared		**-**	-	-	-	-	-	-	(95,626)	**(95,626)**	-	**(95,626)**
Transfer of revaluation surplus to RE		**-**	-	-	(21,192)	-	-	-	21,192	**-**	-	**-**
Balance as of 31 December 2018		**21,014**	**521,190**	**(33,591)**	**57,153**	-	**8,775**	**(6,933)**	**1,543,581**	**2,111,189**	**568**	**2,111,757**

TBC Bank Separate Statements of Changes in Equity

In thousands of GEL	Note	Share capital	Share pre-mium	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Fair value reserve[2]	Retained earnings	Total equity
Balance as of 1 January 2016		**19,587**	**407,474**	**12,755**	**59,532**	**5,759**	**-**	**695,325**	**1,200,432**
Profit for the year		-	-	-	-	-	-	316,551	**316,551**
Other comprehensive income		-	-	-	10,506	(5,340)	-	-	**5,166**
Total comprehensive income for 2016		-	-	-	**10,506**	**(5,340)**	**-**	**316,551**	**321,717**
Share issue		1,031	98,969	**-**	-	-	-	-	**100,000**
Share based payment	26	-	-	11,783	-	-	-	-	**11,783**
Increase in share capital from SBP		36	1,175	(1,211)	-	-	-	-	**-**
Shares repurchased and cancelled		(37)	(3,457)	-	-	-	-	-	**(3,494)**
Dividends declared		-	-	-	-	-	-	(54,560)	**(54,560)**
Balance as of 31 December 2016		**20,617**	**504,161**	**23,327**	**70,038**	**419**	**-**	**957,316**	**1,575,878**
Profit for the year		**-**	**-**	**-**	**-**	**-**	-	326,556	**326,556**
Other comprehensive income		**-**	**-**	**-**	-	6,569	-	-	**6,569**
Total comprehensive income for 2017		**-**	**-**	**-**	**-**	**6,569**	**-**	**326,556**	**333,125**
Business combination		-	-	**-**	-	(5,179)	-	11,581	**6,402**
Share issue		0.3	29	**-**	-	-	-	-	**29**
Elimination of unvested share effect		397	17,000	(17,397)	-	-	-	-	**-**
Share based payment	26	-	-	10,543	-	-	-	-	**10,543**
Share based payment recharge by parent company		-	-	(23,745)	-	-	-	-	**(23,745)**
Dividends declared		**-**	-	-	-	-	-	(78,284)	**(78,284)**
Balance as of 31 December 2017		**21,014**	**521,190**	**(7,272)**	**70,038**	**1,809**	**-**	**1,217,169**	**1,823,948**

[2] 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.

In thousands of GEL	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Fair value reserve[2]	Retained earnings	Total equity
Impact of adopting IFRS 9 as at 1 January 2018		-	-	-	-	(1,809)	1,809	(62,979)	**(62,979)**
Balance as at 1 January 2018		**21,014**	**521,190**	**(7,272)**	**70,038**	-	**1,809**	**1,154,190**	**1,760,969**
Profit for the year		-	-	-	-	-	-	406,057	**406,057**
Other comprehensive income		-	-	-	8,306	-	6,966	-	**15,272**
Total comprehensive income for 2018		**-**	**-**	**-**	**8,306**	**-**	**6,966**	**406,057**	**421,329**
Transfer of revaluation surplus to RE		-	-	-	(21,191)	-	-	21,191	**-**
Share based payment	26	-	-	11,691	-	-	-	-	**11,691**
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	-	**(38,010)**
Dividends declared		-	-	-	-	-	-	(95,626)	**(95,626)**
Balance as of 31 December 2018		**21,014**	**521,190**	**(33,591)**	**57,153**	**-**	**8,775**	**1,485,812**	**2,060,353**

TBC Bank Group Consolidated Statements of Cash Flows

In thousands of GEL	Note	2018	2017	2016
Cash flows from (used in) operating activities				
Interest received		1,224,200	1,000,042	735,704
Interest paid		(504,138)	(425,454)	(274,955)
Fees and commissions received		235,508	195,285	144,247
Fees and commissions paid		(78,123)	(68,024)	(52,154)
Income received from trading in foreign currencies		91,678	87,099	70,411
Other operating income received		15,655	8,980	8,411
Staff costs paid		(195,160)	(182,100)	(147,764)
Administrative and other operating expenses paid		(122,467)	(109,663)	(103,182)
Income tax paid		(34,918)	(53,916)	(34,279)
Cash flows from operating activities before changes in operating assets and liabilities		**632,235**	**452,249**	**346,439**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		(336,232)	(97,430)	(449,150)
Loans and advances to customers		(1,718,446)	(1,330,105)	(1,221,499)
Investment in finance lease		(54,784)	(49,297)	(11,687)
Other financial assets		(32,481)	(38,610)	(22,855)
Other assets		(3,866)	74,213	(741)
Net change in operating liabilities				
Due to other banks		69,755	(228,486)	268,078
Customer accounts		1,442,126	1,339,814	1,156,780
Other financial liabilities		(7,153)	23,541	5,903
Other liabilities and provision for liabilities and charges		3,602	3,617	332
Net cash (used in)/from operating activities		**(5,244)**	**149,506**	**71,600**
Cash flows from (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(717,630)	-	-
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		-	(273)	(200,700)
Cash acquired		809	-	-
Acquisition of bonds carried at amortised cost		(395,717)	(307,248)	(304,109)
Proceeds from redemption of bonds carried at amortised cost		200,658	242,380	314,231
Acquisition of premises, equipment and intangible assets		(104,960)	(113,454)	(50,516)
Proceeds from disposal of premises, equipment and intangible assets		17,933	1,933	1,273
Proceeds from disposal of investment property		42,515	19,082	7,822
Net cash used in investing activities		**(571,040)**	**(372,058)**	**(197,240)**
Cash flows from (used in) financing activities				
Proceeds from other borrowed funds		1,776,489	1,483,191	905,500
Redemption of other borrowed funds		(1,539,562)	(800,333)	(666,156)
Proceeds from subordinated debt		255,899	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		(95,626)	(78,284)	(54,560)
Dividends received		-	-	-
Recharge paid		(38,010)	(23,745)	-
Acquisition of non-controlling interest in subsidiary		-	-	(3,495)
Issue of ordinary shares		-	29	100,000
Net cash flows from financing activities		**290,684**	**638,923**	**327,408**
Effect of exchange rate changes on cash and cash equivalents		21,232	67,633	22,652
Net (decrease)/ increase in cash and cash equivalents		**(264,368)**	**484,004**	**224,420**
Cash and cash equivalents at the beginning of the year	6	**1,428,771**	**944,767**	**720,347**
Cash and cash equivalents at the end of the year	6	**1,164,403**	**1,428,771**	**944,767**

TBC Bank Separate Statements of Cash Flows

In thousands of GEL	Note	2018	2017	2016
Cash flows from (used in) operating activities				
Interest received		1,186,528	915,150	682,698
Interest paid		(494,409)	(397,197)	(255,950)
Fees and commissions received		207,663	166,218	121,965
Fees and commissions paid		(88,769)	(71,935)	(54,650)
Income received from trading in foreign currencies		91,723	81,625	66,221
Other operating income received		12,716	9,904	10,177
Staff costs paid		(176,966)	(157,022)	(123,991)
Administrative and other operating expenses paid		(102,331)	(88,783)	(83,871)
Income tax paid		(34,500)	(49,285)	(29,200)
Cash flows from operating activities before changes in operating assets and liabilities		**601,655**	**408,675**	**333,399**
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		(333,075)	(107,693)	(327,494)
Loans and advances to customers		(1,746,945)	(1,423,237)	(995,430)
Other financial assets		(24,692)	(27,026)	(26,540)
Other assets		19,304	77,167	(34,167)
Net change in operating liabilities				
Due to other banks		69,755	(61,340)	130,029
Customer accounts		1,431,035	1,493,733	1,089,956
Other financial liabilities		5,370	4,808	(3,236)
Other liabilities and provision for liabilities and charges		1,858	919	(551)
Net cash flows (used in)/from operating activities		**24,265**	**366,006**	**165,966**
Cash flows from (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	(717,630)	-	-
Acquisition of investment securities available for sale	10	-	(649,893)	(138,965)
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	163,115
Acquisition of subsidiaries, net of cash acquired		-	-	(345,154)
Cash acquired		809	(126,163)	-
Acquisition of bonds carried at amortised cost		(395,717)	(307,248)	(304,297)
Proceeds from redemption of bonds carried at amortised cost		200,658	242,380	314,231
Acquisition of premises, equipment and intangible assets		(76,631)	(104,540)	(45,615)
Proceeds from disposal of premises, equipment and intangible assets		3,902	550	(159)
Proceeds from disposal of investment property		42,574	20,868	6,207
Net cash used in investing activities		**(556,683)**	**(578,298)**	**(338,769)**
Cash flows from (used in) financing activities				
Proceeds from other borrowed funds		1,685,389	1,405,021	802,883
Redemption of other borrowed funds		(1,487,189)	(676,337)	(587,649)
Proceeds from subordinated debt		211,808	118,150	136,891
Redemption of subordinated debt		(40,558)	(59,671)	(90,416)
Dividends paid		(95,626)	(78,284)	(54,560)
Dividends received		-	17,125	2,241
Recharge paid		(38,010)	(23,745)	-
Acquisition of non-controlling interest in subsidiary		7,190	-	(3,495)
Issue of ordinary shares		-	29	100,000
Net cash flows from financing activities		**243,004**	**702,288**	**305,895**
Effect of exchange rate changes on cash and cash equivalents		27,418	66,387	24,101
Net (decrease)/ increase in cash and cash equivalents		**(261,996)**	**556,383**	**157,193**
Cash and cash equivalents at the beginning of the year	6	**1,417,384**	**861,001**	**703,808**
Cash and cash equivalents at the end of the year	6	**1,155,388**	**1,417,384**	**861,001**

1 Introduction

Principal activity. JSC TBC Bank (hereafter the "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 principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. 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 Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

The Bank has 146 (2017:154; 2016:120) branches within Georgia. During 2016 the Bank acquired JSC Bank Republic, which had 41 branches as of 31 December 2016 not included in number of branches above.

On 1 June 2016, TBC Bank Group PLC ("TBCG"), a public limited liability company, incorporated in England and Wales on 26 February 2016, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 4 August 2016, as of 31 December 2018 TBCG holds 99.88% (2017: 98.67%; 2016: 98.48%) of the share capital of the Bank, thus representing the Bank's ultimate parent company. 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 Group PLC is 10029943.

As of 31 December 2018, 2017 and 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, 2017 and 2016 the Group had no ultimate controlling party.

Shareholders	% of ownership interest held as of 31 December		
	2018	**2017**	**2016**
TBC Bank Group PLC	99.88%	98.67%	98.48%
Other*	0.12%	1.33%	1.52%
Total	**100.00%**	**100.00%**	**100.00%**

* Other includes individual as well as corporate shareholders.

As of 31 December 2018, 2017 and 2016 the shareholder structure by beneficiary ownership interest was as follows:

Shareholders	Ownership interest % as of 31 December		
	2018	**2017**	**2016**
Mamuka Khazaradze	13.54%	13.87%	14.08%
Badri Japaridze	6.77%	6.93%	7.03%
Institutional and retail investors	66.91%	65.45%	55.32%
IFIs	8.18%	11.29%	19.26%
Other Shareholders	4.60%	2.46%	4.31%
Total	**100.00%**	**100.00%**	**100.00%**

2 Summary of Significant Accounting Policies

Basis of preparation. The consolidated and separate financial statements (hereafter the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards (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 and 2016 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 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 o 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.

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.

_2_ Summary of Significant Accounting Policies _(continued)_

IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was 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 JSC 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") 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 consolidated financial statements include the following principal subsidiaries:

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Industry
	2018	2017	2016			
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	100.00%	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[3]	0.00%	-	-	Tbilisi, Georgia	2018	Real Estate
Bank Republic Group	-	-	100.00%	Tbilisi, Georgia	1992	Banking
Ltd Merckhali Pirevli	-	-	100.00%	Tbilisi, Georgia	2009	Operating leasing

On 6 May 2017 the Group has completed the legal and operational process of merging JSC Bank Republic with TBC Bank.

The consolidated financial statements include the following associates:

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Industry
	2018	2017	2016			
JSC CreditInfo Georgia	21.08%	21.08%	-	Tbilisi, Georgia	2005	Financial intermediation
LLC Online Tickets	26.00%	26.00%	-	Tbilisi, Georgia	2015	Computer and Software Services

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

The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below. [i]

[3] The Group has de-facto control over the subsidiary (actual control without legal form of ownership)

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.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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. Refer to Note 41.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position. Repayments for loans are accounted for penalties in the first place, then accrued interest and after that principal amount.

The effective interest method is a method of allocating interest income or interest expense over the 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.

2 Summary of Significant Accounting Policies (Continued)

***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.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). 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:

2 Summary of Significant Accounting Policies (Continued)

Financial assets – classification and subsequent measurement – cash flow characteristics (continued). 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.

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.

2 Summary of Significant Accounting Policies (Continued)

Premises and equipment (continued). 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.

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.

2 Summary of Significant Accounting Policies (Continued)

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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 calculated at nominal interest rate 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.

2 Summary of Significant Accounting Policies (Continued)

Income and expense recognition (continued). 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.

Foreign currency translation. The Group's presentation 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.

Foreign currency translation (continued). 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); USD 1 = 2.6766 (2017: USD 1 = GEL 2.5922); EUR 1 = 3.0701 (2017: EUR 1 = GEL 3.1044).

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.

2 Summary of Significant Accounting Policies (Continued)

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares 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 meeting vesting conditions, the Bank pays recharge amount to the TBC Bank Group PLC and the share based reserve is debited correspondingly. 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 (i.e. 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.

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 41.

2 Summary of Significant Accounting Policies (Continued)

Financial instruments – key measurement terms (comparatives only) (continued). *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 10.

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.

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.

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.

2 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the National Bank of Georgia (comparatives only). Mandatory cash balances with the NBG are carried at amortised cost 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.

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.

.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

Due to credit institutions (comparatives only). 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 amortised cost. 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 (comparatives only). Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt (comparatives only). Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in the Bank's "tier 2" capital.

2 Summary of Significant Accounting Policies (Continued)

Debt securities in issue (comparatives only). Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. 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 (comparatives only). 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.

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.

Receivables from terminated leases (comparatives only). 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 amortised cost less impairment.

Prepayment for purchase of leasing assets (comparatives only). 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 amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance 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:

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	Remeasurement	Carrying value per IFRS 9
In thousands of GEL	**IAS 39**	**IFRS 9**	**(closing balance at 31 December 2017)**	**ECL Effect**	**(opening balance at 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 and now classified as measured at AC.

Investments in equity securities. The Group has elected to irrevocably designate some 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**	**Remeasurement from incurred to expected loss**	**Credit loss allowance under IFRS 9 at 1 January 2018**
Loans and receivables measurement 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 60,232 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 37)	6,844
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	61,444
- Effect of discounting to present value	(8,056)
Total effect on the Right of the use asset and Lease Liability	**60,232**

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	491,891	419,602	402,523
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	369,431	568,375	405,915
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 cash equivalents	1,164,500	1,428,771	944,767
Less: Credit loss allowance	(97)	-	-
Total carrying amount of cash and cash equivalents	**1,164,403**	**1,428,771**	**944,767**

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 one OECD bank (31 December 2017 GEL 12,421 thousand was placed on interbank term deposits 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 35.

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	**2018**	**2017**	**2016**
AAA	5,883	-	
A+	249,802	271,366	78,324
A	4,628	62,281	258,025
A-	-	213,247	27,997
BBB+	93,450	3,235	-
BBB	-	383	23,174
BBB-	872	45	464
BB+	241	300	1,147
BB	208	217	-
BB-	13,926	13,379	2,952
B+	395	442	-
B	26	185	1,971
Not rated	-	3,295	11,861
Total	**369,431**	**568,375**	**405,915**

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	-
BB-	-	-	-
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; 31 December 2016: nil). For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances as at 31 December 2018 is GEL 97 thousand. 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.

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-	19,500	3,727	-
B+	-	661	-
B	665	1,520	4,973
Not rated	-	23,171	21
Total	**37,384**	**37,789**	**23,824**

As of 31 December 2018 the Group had one placement with one bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2017: GEL 5,000 thousand; 2016: nil). The total aggregated amount of these placement was GEL 19,311 thousand (2017: GEL 23,147; 2016: nil) or 51.7% of the total amount due to other (2017: 61%).

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 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

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. 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.

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).

In August 2018 Fitch Ratings re-affirmed Georgia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BB-' with a positive Outlooks. The issue ratings on Georgia's senior unsecured foreign- and local-currency bonds are also affirmed at 'BB-'. The Country Ceiling is affirmed at 'BB' and the Short-term foreign-currency IDR 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 GEL 10,405,780 thousand of gross loans and advances to customers and GEL 325,936 thousand of credit loss allowance were attributable to the Bank (2017: GEL 8,562,746 thousand and GEL 215,198 thousand; 2016: GEL 5,889,829 thousand and GEL 197,961 thousand).

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 27. Some of the clients were reallocated to different segments. Comparative information as of 31 December 2017 and 31 December 2016 have 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	24,877	2,885	2,298	**30,060**	-	-	-	**-**
At 31 December 2018	**2,903,315**	**138,713**	**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	15,568	1,619	1,479	18,666	9	8	113	130
At 31 December 2018	**2,210,725**	**193,049**	**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	4,780	746	355	**5,881**	9	4	(19)	(6)
At 31 December 2018	**1,641,993**	**265,673**	**81,850**	**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)**	(12)	(8)	-	**(20)**
Net Write-offs	-	-	(3,576)	**(3,576)**	-	-	1,963	**1,963**
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	**-**	195	(632)	1,969	**1,532**
FX movements	28,555	3,803	951	**33,309**	9	13	6	**28**
At 31 December 2018	**2,470,603**	**194,410**	**44,170**	**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.

9 Loans and Advances to Customers (Continued)

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**

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 35.

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 im-paired)	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**

9 Loans and Advances to Customers (Continued)

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 35.

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**

9 Loans and Advances to Customers (Continued)

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
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**

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**

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
- 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**

The retail segment in Note 27 includes the following classes from the above tables: consumer and mortgage.

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").

9 Loans and Advances to Customers (Continued)

The effect of collateral as of 31 December 2018:

In thousands of GEL	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	2,857,207	6,516,492	320,082	47,249
Consumer loans	1,213,594	2,543,720	775,922	34,242
Mortgage loans	2,663,362	5,404,518	45,821	28,934
Loans to micro, small and medium enterprises	2,340,847	5,324,290	155,747	68,110
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

The effect of collateral as of 31 December 2017:

In thousands of GEL	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	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:

In thousands of GEL	Over-collateralised Assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	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 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 GEL 625,719 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 41 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 35. Information on related party balances is disclosed in Note 43.

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

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). Country rating for Netherlands stands at AAA with stable outlook as assigned by international rating agencies. 63% 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, 9.8% and 0.5% of corporate bonds are issued by B+ and B rated corporations respectively, whereas 4.8% is issued by two non-rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. At 1 January 2018, the Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. In 2017 and 2016, 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 available for sale 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:

Name *In thousands of GEL*	**Nature of business**	**Country of registration**	**Carrying value as of 31 December** 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		6,966	5,489	522
Interest income accrued	28	57,057	43,735	25,707
Interest income received		(48,459)	(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)	-
Less: Credit loss allowance		(1,136)	-	-
Carrying amount as of 31 December		**1,005,239**	**657,938**	**430,703**

Investment securities balance for the separate financial statements as at 31 December 2016 does not include subsidiary Bank Republic, which was merged with TBC in 2017.

10 Investment Securities Measured at Fair Value through Other Comprehensive Income (Continued)

For the purpose of ECL measurement, securities balances are included in Stage 1. Refer to note 35 for the ECL measurement approach. 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.

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
Less: Credit loss allowance	(915)	-	-
Total Bonds carried at amortised cost	**653,703**	**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
Gross amount as of 1 January	**449,538**	**372,956**	**372,092**
Purchases	395,717	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
Less: Credit loss allowance	(915)	-	-
Gross amount as of 31 December	**653,703**	**449,538**	**372,956**

For the disclosure of bonds' fair value carried at amortised cost refer to Note 411. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 35.

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, 2017 and 2016 were either overdue or impaired.

For the purpose of ECL measurement securities balances are included in Stage 1. Refer to Note 35 for the ECL measurement approach. 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

Other financial assets of the Group are as follows:

In thousands of GEL	2018	2017	2016
Receivables on repossessed assets disposed	43,671	6,618	10,603
Receivables on guarantees / letters of credit	35,373	2,941	-
Prepayments for purchase of leasing assets	32,293	25,478	10,628
Receivables on credit card services and money transfers	14,390	26,703	24,801
Receivable on terminated leases	12,651	8,961	7,832
Bank assurance income receivable	9,618	15,944	4,549
Trade receivable	8,273	13,862	2,232
Rental income receivables	3,492	4,414	3,816
Receivables on guarantees	1,496	18,042	18,215
Factored receivables	-	6,182	900
Other	21,096	23,010	14,979
Less: Credit loss allowance	(28,094)	(18,020)	(6,660)
Total other financial assets	**154,259**	**134,135**	**91,895**

Other financial assets of the Bank are as follows:

In thousands of GEL	2018	2017	2016
Receivables on repossessed assets disposed	43,671	6,618	10,603
Receivables on guarantees / letters of credit	35,373	2,941	-
Receivables on credit card services and money transfers	13,849	26,241	24,151
Bank assurance income receivable	9,618	15,944	4,549
Rental income receivables	3,492	4,414	3,816
Receivables on guarantees	1,511	18,042	18,088
Trade receivable	111	-	-
Factored receivables	-	6,182	900
Other	30,057	40,207	40,199
Less: Provision for impairment	(16,329)	(10,180)	(299)
Total other financial assets	**121,353**	**110,409**	**102,007**

Movements in the credit loss allowance of other financial assets during 2018 for the Group 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**

12 Other Financial Assets (Continued)

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.

Movements in the credit loss allowance of other financial assets during 2018 for the Bank were as follows:

In thousands of GEL	**Total**
Provision for impairment as of 31 December 2017	**10,180**
IFRS 9 effect	**1,019**
Credit loss allowance as of 1 January 2018	**11,199**
Credit loss allowance as of 1 January 2018	11,315
Amounts written off during the year as uncollectible	(6,404)
Foreign exchange translation gains less losses	219
Credit loss allowance as of 31 December 2018	**16,329**

Movements in the provision for impairment of other financial assets during 2017 for the Group 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**
Business Combination	1,568	**10,644**	**12,212**
Provision for impairment during the year	-	(1,010)	**(1,010)**
Amounts written off during the year as uncollectible	-	189	**189**
Recovery of amounts previously written off	-	(31)	**(31)**
Provision for impairment as of 31 December 2017	**6,234**	**11,786**	**18,020**

Movements in the provision for impairment of other financial assets during 2017 for the Bank were as follows:

In thousands of GEL	**Total**
Provision for impairment as of 1 January 2017	**299**
Business Combination	401
Provision for impairment during the year	9,772
Amounts written off during the year as uncollectible	(452)
Recovery of amounts previously written off	189
Foreign exchange translation gains less losses	(29)
Provision for impairment as of 31 December 2017	**10,180**

Movements in the provision for impairment of other financial assets during 2016 for the Group were 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	-	357	**357**
Provision for impairment during the year	1,105	1,464	2,569
Amounts written off during the year as uncollectible	-	(2,370)	**(2,370)**
Recovery of amounts previously written off	-	212	**212**
Provision for impairment as of 31 December 2016	**4,666**	**1,994**	**6,660**

12 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2016 for the Bank were as follows:

In thousands of GEL	**Total**
Provision for impairment as of 1 January 2016	**1,368**
Provision for impairment during the year	1,090
Amounts written off during the year as uncollectible	(2,371)
Recovery of amounts previously written off	212
Provision for impairment as of 31 December 2016	**299**

As at 31 December 2018, presentation of other financial assets gross carrying amount and credit loss allowance for the Group by IFRS 9 stages are as follows:

	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 31 December 2017	**118,882**	**174**	**33,099**	**152,155**	**9,099**	**1**	**8,920**	**18,020**
IFRS 9 effect	-	-	-	-	796	31	192	**1,019**
At 1 January 2018	**118,882**	**174**	**33,099**	**152,155**	**9,895**	**32**	**9,112**	**19,039**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	**-**	(3)	3	-	**(0)**
- 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	54,802	13	35,855	**90,670**	4,439	1	5,596	**10,036**
Changes to ECL measurement model assumptions	-	-	-	**-**	(653)	8	7,707	**7,062**
Derecognised during the period	(26,786)	(44)	(1,243)	**(28,073)**	(509)	(6)	(1,343)	**(1,858)**
Net repayments	(6,070)	(14)	(130)	**(6,214)**	-	-	-	**-**
Net Write-offs	-	-	(16,772)	**(16,772)**	-	-	(6,404)	**(6,404)**
FX movements	(1,000)	-	(8,413)	**(9,413)**	-	-	219	**219**
At 31 December 2018	**134,977**	**74**	**47,302**	**182,353**	**13,145**	**14**	**14,935**	**28,094**

The newly originated exposure in Stage 3 of GEL 35,855 thousand mainly relates to the guarantee transferred to other financial assets.

12 Other Financial Assets (Continued)

As at 31 December 2018, presentation of other financial assets gross carrying amount and credit loss allowance of bank by IFRS 9 stages are as follows:

	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 31 December 2017	**87,316**	**174**	**33,099**	**120,589**	**1,259**	**1**	**8,920**	**10,180**
IFRS 9 effect	-	-	-	-	**796**	31	192	**1,019**
At 1 January 2018	**87,316**	**174**	**33,099**	**120,589**	**2,055**	**32**	**9,112**	**11,199**
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	**-**	(3)	3	-	**(0)**
- 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	41,697	13	35,855	**77,565**	514	1	5,596	**6,111**
Changes to ECL measurement model assumptions	-	-	-	**-**	(654)	8	7,707	**7,061**
Derecognised during the period	(26,786)	(44)	(1,243)	**(28,073)**	(509)	(6)	(1,342)	**(1,857)**
Net repayments	(6,070)	(14)	(130)	**(6,214)**	-	-	-	**-**
Net Write-offs	-	-	(16,772)	**(16,772)**	-	-	(6,404)	**(6,404)**
FX movements	(1,000)	-	(8,413)	**(9,413)**	-	-	219	**219**
At 31 December 2018	**90,306**	**74**	**47,302**	**137,682**	**1,379**	**14**	**14,936**	**16,329**

12 Other Financial Assets (Continued)

The table below illustrates the credit quality of the Group's other financial receivables:

In thousands of GEL	**2018**	**2017**	**2016**
Neither past due nor impairment			
- Receivables on credit card services and money transfers	14,390	26,703	24,801
- Prepayments for purchase of leasing assets	32,293	25,478	10,628
- Factored receivables	-	6,182	900
- Bank assurance income receivable	9,618	15,944	4,549
- Rental income receivables	3,492	4,414	3,816
- Receivables on repossessed assets disposed	43,671	6,480	5,700
- Receivables on guarantees / letters of credit	1,496	2,989	1,089
- Trade receivable	8,273	13,862	2,232
- Other	18,968	17,833	9,014
Total neither past due nor impaired	**132,201**	**119,885**	**62,729**
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**	**1,221**	**-**
- Less than 90 days overdue	35,373	**-**	**-**
- More than 90 days overdue	-	1,221	**-**
- 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**	**5,965**
- Less than 90 days overdue	-	-	-
- More than 90 days overdue	2,128	5,177	5,965
Total individually impaired (gross)	**50,152**	**15,497**	**18,700**
Less impairment provision	**(28,094)**	**(18,020)**	**(6,660)**
Total other financial assets	**154,259**	**134,135**	**91,895**

12 Other Financial Assets (Continued)

The table below illustrates the credit quality of the Bank's other financial receivables:

In thousands of GEL	2018	2017	2016
Neither past due nor impairment			
- Receivables on credit card services and money transfers	13,849	26,241	24,151
- Prepayments for purchase of leasing assets	-	-	-
- Factored receivables	-	6,182	900
- Bank assurance income receivable	9,618	15,944	4,549
- Rental income receivables	3,492	4,414	3,816
- Receivables on repossessed assets disposed	43,671	6,480	5,700
- Receivables on guarantees / letters of credit	1,511	2,989	962
- Trade receivable	111	-	-
- Other	27,929	35,030	34,233
Total neither past due nor impaired	**100,181**	**97,280**	**74,311**
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	**-**	**-**	**-**
- Less than 90 days overdue	-	-	-
- More than 90 days overdue	-	-	-
- Receivables on guarantees and letters of credit	**35,373**	**1,221**	**-**
- Less than 90 days overdue	35,373	**-**	**-**
- More than 90 days overdue	-	**1,221**	**-**
- 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)	**37,501**	**6,536**	**10,869**
Less impairment provision	**(16,329)**	**(10,180)**	**(299)**
Total other financial assets	**121,353**	**110,409**	**102,007**

12 Other Financial Assets (Continued)

Credit rating of Group's 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	-	91,219	41,638
Total	**145,460**	**119,885**	**62,729**

Credit rating of Bank's 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+	624	1,132	660
BBB	35,373	-	-
BB	-	-	-
BB-	76,318	-	-
B+	2,135	3,784	860
B	-	-	2,437
Not rated		75,245	53,760
Total	**121,316**	**97,280**	**74,311**

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.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 1 and 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)
Impairment loss provision	(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**

For fair values refer to Note 41.

13 Investments in Finance Lease (Continued)

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**

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 im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	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 to Stage 2 and Stage3)	(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	256	**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.

13 Investments in Finance Lease (Continued)

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").

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.

13 Investments in Finance Lease (Continued)

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**

Credit quality of net investment in finance lease as at 31 December 2017 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**
Impairment loss provision	(1,498)	(1,142)
Total net investment in finance lease	**143,836**	**95,031**

*Total impaired leases include both collectively and individually impaired leases

13 Investments in Finance Lease (Continued)

The effect of collateral as of 31 December 2018:

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

In thousands of GEL	Over-collateralised assets		Under-collateralised assets	
	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:

In thousands of GEL	Over-collateralised assets		Under-collateralised assets	
	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	27,923	9,605	28,575
Other inventories	3,979	4,135	3,963
Prepaid taxes other than income tax	772	5,788	3,326
Other debtors	-	-	35,497
Total current other assets	**153,337**	**136,337**	**162,234**
Non-current other assets			
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	2,260	2,745	2,445
Prepaid insurance of leasing assets	2,330	1,884	937
Other	2,192	883	2,181
Total non-current other assets	**24,586**	**11,455**	**8,522**
Total other assets	**177,923**	**147,792**	**170,756**

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 Group is obliged not to dispose of the repossessed collateral 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	Intan-gible 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	5,512	19,173	6,206	**30,891**	18,868	**49,759**
Business combination	49,928	7,975	36	**57,939**	6,534	**64,473**
Transfers within premises and equipment	3,042	-	(3,042)	**-**	-	**-**
Transfers to Investment Property	(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	(3,185)	(16,783)	-	**(19,968)**	(6,977)	**(26,945)**
Elimination of accumulated depreciation/amortisation on disposals	2,439	2,555	-	**4,994**	-	**4,994**
Effect of translation to presentation currency - Accumulated depreciation	28	32	-	**60**	(12)	**48**
Carrying amount as of 31 December 2016	**186,871**	**73,549**	**53,164**	**313,584**	**60,698**	**374,282**
Cost or valuation as of 31 December 2016	217,134	175,254	53,164	**445,552**	90,687	**536,239**
Accumulated depreciation/amortisation including accumulated impairment loss	(30,263)	(101,705)	-	**(131,968)**	(29,989)	**(161,957)**
Carrying amount as of 31 December 2016	**186,871**	**73,549**	**53,164**	**313,584**	**60,698**	**374,282**
Additions	5,298	25,894	48,664	**79,856**	34,559	**114,415**
Business combination	11,326	-	(11,326)	**-**	-	**-**
Transfers within premises and equipment	1,114	-	-	**1,114**	-	**1,114**
Transfers to Investment Property	(2,334)	(9,576)	**-**	**(11,910)**	(88)	**(11,998)**
Disposals	-	261	-	**261**	-	**261**
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	(5,455)	(19,982)	-	**(25,437)**	(10,279)	**(35,716)**
Elimination of accumulated depreciation/amortisation on disposals	747	8,628	-	**9,375**	30	**9,405**
Effect of translation to presentation currency - Accumulated depreciation	(25)	(50)	-	**(75)**	57	**(18)**
Carrying amount as of 31 December 2017	**197,561**	**78,048**	**90,456**	**366,065**	**83,072**	**449,137**
Cost or valuation as of 31 December 2017	232,557	191,157	90,456	**514,170**	123,253	**637,423**
Accumulated depreciation/amortisation including accumulated impairment loss	(34,996)	(113,109)	-	**(148,105)**	(40,181)	**(188,286)**
Carrying amount as of 31 December 2017	**197,561**	**78,048**	**90,456**	**366,065**	**83,072**	**449,137**
Additions	8,395	46,118	8,538	**63,051**	41,958	**105,009**
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	(3,948)	(23,062)	**-**	**(27,010)**	(517)	**(27,527)**
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	(5,575)	(22,422)	-	**(27,997)**	(16,100)	**(44,097)**
Elimination of accumulated depreciation/amortisation on disposals	155	8,901	-	**9,056**	89	**9,145**
Effect of translation to presentation currency - Accumulated depreciation	(22)	35	-	**13**	(8)	**5**
Carrying amount as of 31 December 2018	**213,018**	**87,921**	**65,132**	**366,071**	**108,505**	**474,576**
Cost or valuation as of 31 December 2018	253,456	214,516	65,132	**533,104**	164,705	**697,809**
Accumulated depreciation/amortisation including accumulated impairment loss	(40,438)	(126,595)	-	**(167,033)**	(56,200)	**(223,233)**
Carrying amount as of 31 December 2018	**213,018**	**87,921**	**65,132**	**366,071**	**108,505**	**474,576**

*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)

As of 31 December 2018 GEL 335,286 thousand of premises and equipment and GEL 104,066 thousand of intangible assets were attributable to the Bank (2017: GEL 343,988 thousand and GEL 78,995 thousand; 2016: GEL 236,001 thousand and GEL 52,305 thousand).

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

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		3,157	-	22,836
Transfer from Property plant and equipment		32,628	-	-
Gross book value as of 1 January		86,884	83,871	99,347
Accumulated depreciation as of 1 January		(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 unobservable 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:

	Note	2018	2017	2016
Carrying amount as of 1 January		**26,892**	**26,892**	**2,726**
Acquisition of subsidiaries	44	2,567	-	24,166
Carrying amount as of 31 December		**29,459**	**26,892**	**26,892**

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 44)	**2,567**	-	-
CGU Micro	**769**	**769**	**769**
JSC United Financial Corporation	**695**	**695**	**695**
LLC TBC Kredit	**1,262**	**1,262**	**1,262**
Total carrying amount of goodwill	**29,459**	**26,892**	**26,892**

*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:

	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.

**Assumptions related to JSC Bank Republic are similar for all related CGU's.

The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average 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:

17 Goodwill (Continued)

Goodwill Impairment Test (continued)

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 913,325 thousand (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 2016: 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: nill). 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.).

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	23,271
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**	**317,306**
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	35,080	55,533	27,138
Total other borrowed funds	**2,872,071**	**2,558,496**	**1,882,670**
Total amounts due to credit institutions	**3,031,505**	**2,644,714**	**2,199,976**

As of 31 December 2018 GEL 2,859,090 thousand of due to credit institutions were attributable to the Bank (2017: GEL 2,515,633 thousand; 2016: GEL 1,389,020).

As of 31 December 2018 for the purposes of maturity analysis of financial liabilities (Note 35) 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	2,797,214	2,211,502	2,145,028
- Term deposits	337,697	225,132	248,670
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	**9,444,746**	**7,835,323**	**6,461,582**

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	54%	4,378,265	56%	3,748,151	58%
Construction	613,973	7%	377,944	5%	222,372	3%
Trade	550,527	6%	209,339	3%	305,022	5%
Government sector	531,964	6%	330,356	4%	140,852	2%
Transportation	486,939	5%	376,333	5%	188,388	3%
Energy & Utilities	417,037	4%	429,722	5%	283,497	4%
Financial Services	397,653	4%	398,278	5%	501,591	8%
Services	360,084	4%	236,128	3%	274,138	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	548,015	6%	354,697	5%	291,816	5%
Total customer accounts	**9,444,746**	**100%**	**7,835,323**	**100%**	**6,461,582**	**100%**

19 Customer Accounts (Continued)

As of 31 December 2018 the Group had 310 customers (2017: 261 customers; 2016: 222 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,242,990 thousand (2017: GEL 3,439,673 thousand; 2016: GEL 2,539,513 thousand) or 45% 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 37. 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: GEL 342,365 thousand).

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 43.

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	7,834	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,224	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,637	22-Jul-19	7.3%	8.1%
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 41 for the disclosure of the fair value of debt securities in issue.

21 Provisions 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	2,210	**2,981**
Assuming guarantees following asset purchase	909	-	-	**909**
Additions through Business Combinations	706	1,237	-	**1,943**
Carrying amount as of 31 December 2016	**2,635**	**8,049**	**4,610**	**15,294**
Charges less releases recorded in profit or loss	(579)	190	(2,495)	**(2,884)**
Assuming guarantees following asset purchase	-	-	(2,115)	**(2,115)**
Additions through Business Combinations	11	-	-	**11**
Carrying amount as of 31 December 2017	**2,067**	**8,239**	**-**	**10,306**
IFRS 9 transition effect	684	(4,661)	-	**(3,977)**
Carrying amount as of 1 January 2018	**2,751**	**3,578**	-	**6,329**
Charges less releases recorded in profit or loss	1,640	1,846	4,000	**7,486**
Effect of translation to presentation currency	2	-	-	**2**
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**4,000**	**13,817**

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.

For the purpose of ECL measurement other guarantees balances are included in mainly Stage 1 or Stage 2. Refer to Note 35 for the ECL measurement approach.

22 Other Financial Liabilities

Other financial liabilities of the Group 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
Derivative financial liabilities	40	2,064	575	1,298
Other accrued liabilities		10,625	16,488	11,936
Total other financial liabilities		**78,205**	**79,774**	**50,153**

22 Other Financial Liabilities (Continued)

Other financial liabilities of the Bank comprise the following:

In thousands of GEL	Note	2018	2017	2016
Trade payables		12,437	7,711	3,705
Security deposits for finance lease		-	-	-
Debit or credit card payables		19,939	11,383	12,155
Derivative financial liabilities	40	2,064	575	1,298
Other accrued liabilities		10,907	15,844	4,193
Total other financial liabilities		**45,347**	**35,513**	**21,351**

Refer to Note 41 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	48,116	42,500	38,317
Taxes payable other than on income	19,624	14,145	16,723
Advances received	10,867	10,350	6,256
Other	7,689	3,192	1,555
Total other liabilities	**86,296**	**70,187**	**62,851**

All of the above liabilities are expected to be settled within twelve months after the year-end.

24 Subordinated Debt

As of 31 December 2018, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	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 Development 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 climate partnership fund	20-Nov-18	20-Nov-28	USD	25,111	67,211
ResponsAbility SICAV (Lux) Microfinance Leaders	30-Nov-18	30-Nov-28	USD	1,007	2,695
ResponsAbility SICAV (Lux) Financial inclusion fund	30-Nov-18	30-Nov-28	USD	3,121	8,354
ResponsAbility 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**

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 Development 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 Development 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 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

25 Share Capital

As of 31 December 2018 the total authorised number of ordinary shares was 52,539,769 shares (31 December 2017: 52,539,769 shares; 31 December 2016: 52,539,015 shares). Each share has a nominal value of GEL 0.4 (31 December 2017: GEL 0.4 per share; 31 December 2016: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

In thousands of GEL except for number of shares	**Number of outstanding shares**	**Share capital**	**Share premium**	**Total**
At 1 January 2016	**49,529,463**	**19,811**	**413,645**	**433,456**
Registering shares in the name of employees under share based payment arrangement	525,456	210	12,004	**12,214**
Shares repurchased and cancelled	(94,553)	(38)	(3,457)	**(3,495)**
New shares issued	2,578,649	1,031	98,969	**100,000**
At 31 December 2016	**52,539,015**	**21,014**	**521,161**	**542,175**
New shares issued	754	0.3	29	29
At 31 December 2017	**52,539,769**	**21,014**	**521,190**	**542,204**
At 31 December 2018	**52,539,769**	**21,014**	**521,190**	**542,204**

On 21 May 2018, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.64 per share, based on the 2017 audited financial statements. The dividend was recorded on 12 June 2018 and on 14 June 2018 shareholders received the payment of the total GEL 95,626 thousand dividends.

On 7 June 2017, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.49 per share, based on the 2016 audited financial statements. The dividend was recorded on 12 June 2017 and on 14 June 2017 shareholders received the payment of the total GEL 78,284 thousand dividends.

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.

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.

26 Share Based Payments (Continued)

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.

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.

26 Share Based Payments (Continued)

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.

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 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**
Number of shares granted	-	-	-
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)	11,691	10,543	12,599
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	-	-	(817)
Expense on cash-settled part (GEL thousand)	8,401	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 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 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 35.

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:

27 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	152,832	**1,283,213**
− interest expense	(138,840)	(123,729)	(9,710)	(240,376)	**(512,655)**
− Inter-segment interest income(expense)	35,531	(78,453)	(83,475)	126,397	**-**
− **Net interest income**	**161,250**	**407,807**	**162,648**	**38,853**	**770,558**
− Fee and commission income	40,663	170,082	22,498	1,383	**234,626**
− Fee and commission expense	(6,624)	(64,270)	(6,861)	(379)	**(78,134)**
− **Net Fee and commission income**	**34,039**	**105,812**	**15,637**	**1,004**	**156,492**
− Net gains from trading in foreign currencies	44,629	28,811	22,002	(3,764)	**91,678**
− Net gains from foreign exchange translation	-	-	-	15,503	15,503
− Net losses from derivative financial instruments	-	(223)	-	19	**(204)**
− Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	2	2
− Other operating income	19,691	8,658	748	1,809	**30,906**
Share of profit of associates	-	-	-	1,154	**1,154**
− **Other operating non-interest income**	**64,320**	**37,246**	**22,750**	**14,723**	**139,039**
− 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	(2,826)	(412)	(248)	-	**(3,486)**
− Credit loss allowance for investments in finance lease	-	-	-	(1,765)	(1,765)
− Credit loss allowance for other financial assets	(8,634)	(3,959)	(2)	(3,851)	**(16,446)**
− Credit loss allowance for financial assets measured at fair value through OCI	(95)	-	-	9	(86)
− **Profit before administrative and other expenses and income taxes**	**238,228**	**428,451**	**184,931**	**48,973**	**900,583**
− Staff costs	(29,145)	(127,299)	(42,669)	(13,356)	**(212,469)**
− Depreciation and amortisation	(2,226)	(36,745)	(4,981)	(1,326)	**(45,278)**
− Provision for liabilities and charges	-	-	-	(4,000)	**(4,000)**
− Administrative and other operating expenses	(10,939)	(87,846)	(20,110)	(15,290)	**(134,185)**
− **Operating expenses**	**(42,310)**	**(251,890)**	**(67,760)**	**(33,972)**	**(395,932)**
− **Profit before tax**	**195,918**	**176,561**	**117,171**	**15,001**	**504,651**
− Income tax expense	(29,907)	(22,898)	(17,249)	(1,297)	**(71,351)**
− **Profit for the year**	**166,011**	**153,663**	**99,922**	**13,704**	**433,300**
Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	-	**10,372,582**
Total customer accounts reported	3,323,257	5,103,971	1,017,518	-	**9,444,746**
Total credit related commitments and performance guarantees	1,578,218	246,639	246,825	-	**2,071,682**

27 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	110,768	**1,033,709**
– interest expense	(104,792)	(118,516)	(11,661)	(197,173)	**(432,142)**
– Inter-segment interest income(expense)	22,489	(73,141)	(51,488)	102,140	**-**
– **Net interest income**	**120,779**	**344,194**	**120,859**	**15,735**	**601,567**
– Fee and commission income	30,426	140,582	20,335	1,409	**192,752**
– Fee and commission expense	(6,910)	(51,199)	(8,949)	(893)	**(67,951)**
– **Net Fee and commission income**	**23,516**	**89,383**	**11,386**	**516**	**124,801**
– Net gains from trading in foreign currencies	38,885	22,597	26,885	(1,268)	**87,099**
– Net losses from foreign exchange translation	-	-	-	4,595	**4,595**
– 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	3,650	**31,511**
- Share of profit of associates	-	-	-	909	**909**
– **Other operating non-interest income**	**52,350**	**35,267**	**28,611**	**7,943**	**124,171**
– Provision for loan impairment	27,031	(106,579)	(14,275)	-	**(93,823)**
– Provision for performance guarantees and credit related commitments	184	(261)	467	-	**390**
– Provision for impairment of investments in finance lease	-	-	-	(492)	**(492)**
– Provision for impairment of other financial assets	(7,666)	(17)	(64)	(4,465)	**(12,212)**
– Impairment of investment securities available for sale	-	-	-	-	**-**
– **Profit before administrative and other expenses and income taxes**	**216,194**	**361,987**	**146,984**	**19,237**	**744,402**
– Staff costs	(25,989)	(128,331)	(31,225)	(11,281)	**(196,826)**
– Depreciation and amortisation	(1,438)	(29,813)	(4,972)	(659)	**(36,882)**
– Provision for liabilities and charges	-	-	-	2,495	**2,495**
– Administrative and other operating expenses	(7,457)	(81,356)	(15,118)	(11,815)	**(115,746)**
– **Operating expenses**	**(34,884)**	**(239,500)**	**(51,315)**	**(21,260)**	**(346,959)**
– **Profit before tax**	**181,310**	**122,487**	**95,669**	**(2,023)**	**397,443**
– Income tax expense	(27,738)	(15,527)	(13,820)	22,423	**(34,662)**
– **Profit for the year**	**153,572**	**106,960**	**81,849**	**20,400**	**362,781**
Total gross loans and advances to customers reported	2,475,392	4,233,153	1,844,672	-	**8,553,217**
Total customer accounts reported	2,429,368	4,378,265	1,027,690	-	**7,835,323**
Total credit related commitments and performance guarantees	1,160,531	229,178	199,662	-	**1,589,371**

27 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	161,030	386,193	141,533	77,654	**766,410**
– interest expense	(45,205)	(101,521)	(8,114)	(122,282)	**(277,122)**
– Inter-segment interest income(expense)	(22,186)	(34,056)	(36,752)	92,994	**-**
– **Net interest income**	93,639	250,616	96,667	48,366	**489,288**
– Fee and commission income	21,884	100,637	16,331	3,950	**142,802**
– Fee and commission expense	(3,977)	(42,905)	(4,689)	(539)	**(52,110)**
– **Net Fee and commission income**	**17,907**	**57,732**	**11,642**	**3,411**	**90,692**
– Net gains from trading in foreign currencies	23,945	17,817	26,271	2,126	**70,159**
– Net losses from foreign exchange translation	-	-	-	(2,528)	**(2,528)**
– 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	6,529	**23,214**
– **Other operating non-interest income**	**33,782**	**23,589**	**27,347**	**15,214**	**99,932**
– 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)	(1,461)	**(2,569)**
– Impairment of investment securities available for sale	-	-	(11)	-	**(11)**
– **Profit before administrative and other expenses and income taxes**	**193,025**	**257,818**	**110,986**	**64,972**	**626,801**
– Staff costs	(23,068)	(100,888)	(28,188)	(19,160)	**(171,304)**
– Depreciation and amortisation	(1,062)	(21,560)	(3,507)	(1,851)	**(27,980)**
– Provision for liabilities and charges	-	-	-	(2,210)	**(2,210)**
– Administrative and other operating expenses	(5,944)	(59,365)	(12,793)	(30,099)	**(108,201)**
– **Operating expenses**	**(30,074)**	**(181,813)**	**(44,488)**	**(53,320)**	**(309,695)**
– **Profit before tax**	**162,951**	**76,005**	**66,498**	**11,652**	**317,106**
– Income tax expense	(24,513)	(7,406)	(10,325)	24,823	(17,421)
– **Profit for the year**	**138,438**	**68,599**	**56,173**	**36,475**	**299,685**
Total gross loans and advances to customers reported	2,062,229	3,680,576	1,615,920	-	**7,358,725**
Total customer accounts reported	1,882,210	3,747,774	831,598	-	**6,461,582**
Total credit related commitments and performance guarantees	802,971	188,574	155,275	-	**1,146,820**

27 Segment Analysis (Continued)

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	1,164,403	1,428,771	944,767
Mandatory cash balances with National Bank of Georgia	1,422,809	1,033,818	990,642
Due from other banks	37,384	37,789	23,824
Investment securities measured at fair value through other comprehensive income	1,005,239	-	-
Investment securities available for sale	-	657,938	430,703
Bonds carried at amortised cost	653,703	449,538	372,956
Current income tax prepayment	2,159	19,084	7,429
Deferred income tax asset	1,992	2,605	3,265
Other financial assets	154,259	134,135	91,895
Investments in finance leases	203,802	143,836	95,031
Other assets	177,923	147,792	170,756
Premises and equipment	366,071	366,065	313,584
Intangible assets	108,505	83,072	60,698
Investment properties	84,296	79,232	95,615
Goodwill	29,459	26,892	26,892
Investments in Subsidiaries and Associates	2,432	1,278	-
Total assets per statement of financial position	**15,452,888**	**12,937,198**	**10,761,759**

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)	9,444,746	7,835,323	6,461,582
Due to Credit institutions	3,031,505	2,644,714	2,199,976
Debt securities in issue	13,343	20,695	23,508
Current income tax liability	63	447	2,579
Deferred income tax liability	22,237	602	5,646
Provisions for liabilities and charges	13,817	10,306	15,294
Other financial liabilities	78,205	79,774	50,153
Other liabilities	86,296	70,187	62,851
Subordinated debt	650,919	426,788	368,381
Total liabilities per statement of financial position	**13,341,131**	**11,088,836**	**9,189,970**

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
− Fee and commission income	40,663	170,082	22,498	1,383	**234,626**
− Other operating income	19,691	8,658	748	1,809	**30,906**
Total	**60,354**	**178,740**	**23,246**	**3,192**	**265,532**
Timing of revenue recognition:					
− At point in time	56,393	160,555	22,950	3,187	**243,085**
− Over time	3,961	18,185	296	5	**22,447**

28 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	688,756
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	22,722	14,577	4,502
Other interest income			
Investments in leases	38,837	23,273	16,566
Other	-	-	165
Total interest income	**1,283,213**	**1,033,709**	**766,410**
Interest expense			
Customer accounts	272,279	234,969	154,840
Due to credit institutions	197,403	158,255	86,179
Subordinated debt	41,571	36,975	34,325
Debt securities in issue	1,402	1,943	1,778
Total interest expense	**512,655**	**432,142**	**277,122**
Net interest income	**770,558**	**601,567**	**489,288**

As of 31 December 2018 GEL 1,244,451 thousand of interest income and GEL 502,331 thousand of interest expense were attributable to the Bank (2017: GEL 947,126 thousand and GEL 401,955 thousand, 2016: GEL 701,276 thousand and GEL 255,633).

In the year ended 31 December 2018 the interest accrued on impaired loans amounted to GEL 41,373 thousand (2017: GEL 16,332 thousand; 2016: GEL 23,825 thousand).

29 Fee and Commission Income and Expense

Fee and commission income and expense of the Group are as follows:

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	70,718	59,730	43,436
- Guarantees issued	19,814	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	12,234	10,878	6,047
Total fee and commission income	**234,626**	**192,752**	**142,802**
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	8,654	7,400	5,795
- Cash transactions	5,180	4,393	2,633
- Guarantees received	2,863	2,873	2,420
- Self-service and POS terminal transactions	34	6,436	4,692
- Other	5,510	489	1,664
Total fee and commission expense	**78,134**	**67,951**	**52,110**
Net fee and commission income	**156,492**	**124,801**	**90,692**

29 Fee and Commission Income and Expense (Continued)

Fee and commission income and expense of the Bank are as follows:

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	102,802	78,690	57,553
- Settlement transactions	45,676	34,620	24,691
- Guarantees issued	19,815	14,188	10,982
- Cash transactions	18,585	18,615	14,108
- Issuance of letters of credit	6,497	5,556	6,113
- Foreign exchange operations	2,186	1,324	1,230
- Other	10,994	10,511	5,820
Total fee and commission income	**206,555**	**163,504**	**120,497**
Fee and commission expense			2,292
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	63,190	51,848	41,399
- Settlement transactions	8,312	7,193	5,652
- Cash transactions	13,724	9,958	4,904
- Guarantees received	2,863	2,765	2,292
- Self-service and POS terminal transactions	-	-	-
- Other	680	171	403
Total fee and commission expense	**88,769**	**71,935**	**54,650**
Net fee and commission income	**117,786**	**91,569**	**65,847**

30 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	6,559	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	487	1,333	644
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	-
Dividend Income	-	-	823
Recovery from repayment of purchased impaired loans	-	-	4,995
Administrative fee income from international financial institutions	-	-	644
Other	6,548	6,120	3,616
Total other operating income	**30,906**	**31,511**	**23,214**

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 for the Group and the Bank (2017: GEL 24,284 thousand 2016: GEL 26,972 thousand).

31 Staff Costs

Staff costs of the Group are as follows:

In thousands of GEL	2018	2017	2016
Salaries and bonuses	183,822	176,510	145,926
Share based compensation	20,092	15,662	22,053
Other compensation cost	8,555	4,654	3,325
Salaries and other employee benefits	**212,469**	**196,826**	**171,304**

31 Staff Costs (Continued)

Staff costs of the Bank are as follows:

In thousands of GEL	2018	2017	2016
Salaries and bonuses	166,356	153,575	125,033
Share based compensation	19,973	15,662	22,053
Other compensation cost	7,687	3,882	2,473
Salaries and other employee benefits	**194,016**	**173,119**	**149,559**

In 2018 the average monthly total number of persons employed by the Group and by the Bank was 7,002 and 6,412 people respectively (2017: 6,883 and 5,958; 2016: 5,520 and 4,788).

32 Administrative and Other Operating Expenses

Administrative and other operating expenses of the Group are as follows:

In thousands of GEL	2018	2017	2016
Advertising and marketing services	28,770	18,021	13,784
Rent	23,738	22,700	18,233
Intangible asset enhancement	11,366	10,304	7,446
Professional services	10,585	12,162	29,030
Insurance	7,659	3,270	2,686
Taxes other than on income	6,686	5,607	4,699
Utility services	6,486	6,057	5,104
Premises and equipment maintenance	5,773	5,253	3,880
Communications and supply	5,030	4,063	4,183
Stationery and other office expenses	4,636	4,737	3,429
Security services	2,040	1,965	1,883
Business trip expenses	2,005	1,897	1,880
Transportation and vehicle maintenance	1,988	1,637	1,386
Personnel training and recruitment	1,809	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	-	1,916	2,043
Reversal of previously written-down current assets to fair value less costs to sell	(1,026)	(538)	(4,424)
Other	14,569	12,475	8,690
Total administrative and other operating expenses	**134,185**	**115,746**	**108,201**

Administrative and other operating expenses of the Bank are as follows:

In thousands of GEL	2018	2017	2016
Advertising and marketing services	27,885	17,468	13,060
Rent	19,822	17,462	14,128
Intangible asset enhancement	9,932	8,630	5,939
Professional services	9,203	10,368	27,543
Insurance	3,884	989	933
Taxes other than on income	3,757	3,406	2,957
Utility services	6,280	5,610	4,772
Premises and equipment maintenance	6,891	5,868	4,423
Communications and supply	4,312	3,500	2,600
Stationery and other office expenses	4,403	4,348	3,092
Security services	1,916	1,803	1,687
Business trip expenses	1,878	1,753	1,699
Transportation and vehicle maintenance	770	898	751
Personnel training and recruitment	1,710	1,074	1,111
Charity	1,012	989	790
Loss on disposal of premises and equipment	806	276	365
Loss on disposal of inventories	108	1,020	1,243
Impairment of intangible assets	-	1,916	-
Reversal of previously written-down current assets to fair value less costs to sell	(1,593)	(540)	(4,819)
Other	9,484	6,954	5,369
Total administrative and other operating expenses	**112,460**	**93,792**	**87,643**

32 Administrative and Other Operating Expenses (Continued)

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	1,482	-	-	**1482**
Review of TBC Bank Group and subsidiaries interim financial statements	-	260	-	**260**
Other assurance services	-	-	114	**114**
Total auditor's remuneration	**1,482**	**260**	**114**	**1,856**
2017				
Audit of TBC Bank Group and subsidiaries annual financial statements	924	-	-	**924**
Review of TBC Bank Group and subsidiaries interim financial statements	-	251	-	**251**
Other assurance services	-	-	173	**173**
Total auditor's remuneration	**924**	**251**	**173**	**1,348**
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.

33 Income Taxes

Income tax expenses comprises of the following:

In thousands of GEL	2018	2017	2016
Current tax charge	51,500	39,225	36,601
Deferred tax (credit)/charge	19,851	(4,563)	(19,180)
Income tax expense for the year	**71,351**	**34,662**	**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	**504,651**	**397,443**	**317,106**
Theoretical tax charge at statutory rate (2018: 15%; 2017: 15%, 2016: 15%)	75,828	59,718	46,917
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(17,611)	(13,645)	(9,638)
- Non-deductible expenses	(746)	(117)	3,492
- Effect of change in tax legislation	13,833	(11,794)	(24,204)
- Other differences	47	500	854
Income tax expense for the year	**71,351**	**34,662**	**17,421**

33 Income Taxes (Continued)

Differences between IFRS 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 (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.

In thousands of GEL	**31 December 2017**	**(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)	(2,443)	(23,201)
Loan impairment provision	2,401	417	-	2,864
Other financial assets	2,015	302	-	2,317
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	1,652	(788)	-	864
Share based payment	1,486	(823)	-	663
Tax loss carry forwards	(29)	29	-	-
Net deferred tax asset/(liability)	**2,003**	**(19,851)**	**(2,443)**	**(20,245)**
Recognised deferred tax asset	2,605	(659)	-	1,992
Recognised deferred tax liability	(602)	(19,192)	(2,443)	(22,237)
Net deferred tax asset/(liability)	**2,003**	**(19,850)**	**(2,443)**	**(20,245)**

33 Income Taxes (Continued)

In thousands of GEL	31 December 2016	(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	(91)	2,401	-	2,401
Fair valuation of investment securities available for sale	165	483	(648)	-
Other financial assets	2,122	(107)	-	2,015
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	2,225	(573)	-	1,652
Share based payment	676	810	-	1,486
Tax loss carry forwards	(29)	-	-	(29)
Net deferred tax asset/(liability)	**(2,381)**	**4,564**	**(271)**	**2,003**
Recognised deferred tax asset	3,265	(660)	-	2,605
Recognised deferred tax liability	(5,646)	5,315	(271)	(602)
Net deferred tax asset/(liability)	**(2,381)**	**4,655**	**(271)**	**2,003**

In thousands of GEL	1 January 2016	(Charged)/ credited to profit or loss	Credited 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	(266)	165
Other financial assets	5,952	(3,830)	-	-	2,122
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	-	(231)	2,226
Share based payment	741	(65)	-	-	676
Tax loss carry forwards	-	(29)	-	-	(29)
Net deferred tax asset/(liability)	**(27,698)**	**19,180**	**12,576**	**(6,359)**	**(2,381)**
Recognised deferred tax asset	1,546	1,719	-	-	3,265
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**	**(6,361)**	**(2,381)**

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.

34 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	**1,882,670**	**23,508**	**368,381**	**2,274,559**
Cash flows	541,289	(3,251)	22,837	**560,875**
Foreign exchange adjustments	(14,398)	(1,505)	(766)	**(16,669)**
Other non-cash movements	148,935	1,943	36,336	**187,214**
Net debt at 31 December 2017	**2,558,496**	**20,695**	**426,788**	**3,005,979**
Cash flows	54,486	(9,308)	171,781	216,959
Foreign exchange adjustments	70,883	554	9,958	81,395
Other non-cash movements	188,206	1,402	42,392	232,000
Net debt at 31 December 2018	**2,872,071**	**13,343**	**650,919**	**3,536,333**

35 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.

35 Financial and Other Risk Management (Continued)

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.

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 and the Supervisory 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.

35 Financial and Other Risk Management (Continued)

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 note37.

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.

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.

35 Financial and Other Risk Management (Continued)

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.

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, and
- Default – exposures in default, with observed credit impairment.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

35 Financial and Other Risk Management (Continued)

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. 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 II 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.

35 Financial and Other Risk Management (Continued)

Significant increase in credit risk (“SICR”) (continued).

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.

35 Financial and Other Risk Management (Continued)

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.

35 Financial and Other Risk Management (Continued)

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.

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	648,068	515,159	1,176	**1,164,403**
Due from other banks	18,485	12,852	6,047	**37,384**
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	**1,422,809**
Loans and advances to customers	9,526,936	121,712	389,804	**10,038,452**
Investment securities measured at fair value through other comprehensive income	1,004,564	-	675	**1,005,239**
Bonds carried at amortised cost	653,703	-	-	**653,703**
Investments in leases	202,850	-	952	**203,802**
Other financial assets	153,640	329	290	**154,259**
Total financial assets	**13,631,055**	**650,052**	**398,944**	**14,680,051**
Non-financial assets	**769,139**	**56**	**3,642**	**772,837**
Total assets	**14,400,194**	**650,108**	**402,586**	**15,452,888**
Liabilities				
Due to credit institutions	1,154,329	1,811,299	65,877	**3,031,505**
Customer accounts	7,882,839	697,753	864,154	**9,444,746**
Debt securities in issue	7,927	-	5,416	**13,343**
Other financial liabilities	77,870	296	39	**78,205**
Subordinated debt	94,263	420,031	136,625	**650,919**
Total financial liabilities	**9,217,228**	**2,929,379**	**1,072,111**	**13,218,718**
Non-financial liabilities	**121,395**	**525**	**493**	**122,413**
Total liabilities	**9,338,623**	**2,929,904**	**1,072,604**	**13,341,131**
Net balance sheet position	**5,061,571**	**(2,279,796)**	**(670,018)**	**2,111,757**
Performance guarantees	**684,844**	**291,795**	**219,208**	**1,195,847**
Credit related commitments	**870,446**	**3,751**	**1,638**	**875,835**

35 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	818,094	608,575	2,102	**1,428,771**
Due from other banks	25,329	8,733	3,727	**37,789**
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	133,789	141	205	**134,135**
Total financial assets	**11,221,579**	**685,254**	**304,345**	**12,211,178**
Non-financial assets	**721,274**	**55**	**4,691**	**726,020**
Total assets	**11,942,853**	**685,309**	**309,036**	**12,937,198**
Liabilities				
Due to credit institutions	1,069,211	1,559,644	15,859	**2,644,714**
Customer accounts	6,517,641	694,820	622,862	**7,835,323**
Debt securities in issue	7,821	-	12,874	**20,695**
Other financial liabilities	78,670	474	630	**79,774**
Subordinated debt	62,508	232,263	132,017	**426,788**
Total financial liabilities	**7,735,851**	**2,487,201**	**784,242**	**11,007,294**
Non-financial liabilities	**79,612**	**1,084**	**846**	**81,542**
Total liabilities	**7,815,463**	**2,488,285**	**785,088**	**11,088,836**
Net balance sheet position	**4,127,390**	**(1,802,976)**	**(476,052)**	**1,848,362**
Performance guarantees	**387,904**	**151,502**	**72,905**	**612,311**
Credit related commitments	**968,019**	**2,996**	**6,045**	**977,060**

35 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	548,866	389,223	6,678	**944,767**
Due from other banks	4,973	18,851	-	**23,824**
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	91,666	229	-	**91,895**
Total financial assets	**9,457,156**	**496,919**	**129,445**	**10,083,520**
Non-financial assets	**673,438**	**29**	**4,772**	**678,239**
Total assets	**10,130,594**	**496,948**	**134,217**	**10,761,759**
Liabilities				
Due to credit institutions	719,098	1,410,693	70,185	**2,199,976**
Customer accounts	5,426,095	532,690	502,797	**6,461,582**
Debt securities in issue	13,261	-	10,247	**23,508**
Other financial liabilities	48,248	1,285	620	**50,153**
Subordinated debt	-	233,657	134,724	**368,381**
Total financial liabilities	**6,206,702**	**2,178,325**	**718,573**	**9,103,600**
Non-financial liabilities	**84,678**	**1,100**	**592**	**86,370**
Total liabilities	**6,291,380**	**2,179,425**	**719,165**	**9,189,970**
Net balance sheet position	**3,839,214**	**(1,682,477)**	**(584,948)**	**1,571,789**
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.

35 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 balance sheet position**
Georgian Lari	5,915,034	4,751,326	86,122	**1,249,830**
US Dollars	7,289,483	7,431,595	323,246	**181,134**
Euros	1,374,805	948,620	(409,565)	**16,620**
Other	100,729	87,165	(463)	**13,101**
Total	**14,680,051**	**13,218,706**	**(660)**	**1,460,685**

	As of 31 December 2017			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Georgian Lari	4,812,558	3,809,208	164,521	**1,167,871**
US Dollars	6,460,892	6,288,939	(153,449)	**18,504**
Euros	816,277	805,172	(9,315)	**1,790**
Other	121,432	103,975	(899)	**16,558**
Total	**12,211,159**	**11,007,294**	**858**	**1,204,723**

	As of 31 December 2016			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Georgian Lari	3,483,389	2,485,281	9,394	**1,007,502**
US Dollars	5,819,504	5,850,217	(8,905)	**(39,618)**
Euros	690,667	697,520	(13)	**(6,866)**
Other	89,960	70,582	(288)	**19,090**
Total	**10,083,520**	**9,103,600**	**188**	**980,108**

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)	(6,758)	(1,807)	(1,184)
Maximum loss (VAR,95% confidence level)	(4,683)	(1,197)	(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.

35 Financial and Other Risk Management (Continued)

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

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. 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	4,776,646	3,596,006	1,009,348	5,298,973	14,680,973
Total financial liabilities	4,565,789	3,327,654	1,026,112	4,300,095	13,219,650
Net interest sensitivity gap as of 31 December 2018	**210,857**	**268,352**	**(16,764)**	**998,878**	**1,461,323**
31 December 2017					
Total financial assets	3,419,809	2,440,185	1,065,644	5,306,276	12,231,914
Total financial liabilities	4,098,666	2,628,473	1,046,629	3,254,239	11,028,007
Net interest sensitivity gap as of 31 December 2017	**(678,857)**	**(188,288)**	**19,015**	**2,052,037**	**1,203,907**
31 December 2016					
Total financial assets	2,707,541	1,796,745	1,011,420	4,606,985	10,122,691
Total financial liabilities	3,603,901	2,011,224	1,024,058	2,503,590	9,142,773
Net interest sensitivity gap as of 31 December 2016	**(896,360)**	**(214,479)**	**(12,638)**	**2,103,395**	**979,918**

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 4.4 million higher (2017: GEL 7.6 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 6,131 thousand higher (2017: GEL 6,131 thousand, 2016: GEL 1,516 thousand), as a result of an increase in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 4.4 million lower (2017: GEL 7.6 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 5,861 thousand lower (2017: GEL 5,861 thousand, 2016: GEL 2,118 thousand), as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

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.

35 Financial and Other Risk Management (Continued)

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. 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.

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 106.3% 106.3% and 110.5%, at the 31 December 2018, 2017 and 2016 respectively.

35 Financial and Other Risk Management (Continued)

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.

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	137,274	195,007	**4,362,393**
Other financial liabilities	72,399	5,806	-	-	**78,205**
Subordinated debt	5,573	71,519	415,090	588,197	**1,080,379**
Debt securities in issue	366	13,847	-	-	**14,213**
Gross settled forwards	567,259	16,008	-	-	**583,267**
Performance guarantees	119,994	349,354	671,333	55,166	**1,195,847**
Financial guarantees and letter of credit	105,973	-	-	-	**105,973**
Other credit related commitments	769,863	-	-	-	**769,863**
Total potential future payments for financial obligations	**9,566,224**	**2,446,011**	**3,762,115**	**1,053,221**	**16,827,571**

35 Financial and Other Risk Management (Continued)

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	75,081	4,433	260	-	**79,774**
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	55,928	241,460	306,788	8,135	**612,311**
Financial guarantees and letter of credit	248,882	-	-	-	**248,882**
Other credit related commitments	728,178	-	-	-	**728,178**
Total potential future payments for financial obligations	**8,033,386**	**2,324,707**	**2,342,087**	**627,958**	**13,328,138**

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	837,189	310,447	1,103,959	168,271	**2,419,866**
Customer accounts – individuals	2,147,014	1,284,067	360,609	39,578	**3,831,268**
Customer accounts – other	2,287,043	238,551	134,293	74,180	**2,734,067**
Other financial liabilities	46,464	2,545	1,144	-	**50,153**
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 and letter of credit	271,102	-	-	-	**271,102**
Other credit related commitments	449,110	-	-	-	**449,110**
Total potential future payments for financial obligations	**6,120,027**	**2,029,961**	**2,071,938**	**643,425**	**10,865,351**

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.

35 Financial and Other Risk Management (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	1,164,403	-	-	-	**1,164,403**
Due from other banks	25,471	8,075	3,838	-	**37,384**
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 measured at fair value through other comprehensive income	1,005,239	-	-	-	**1,005,239**
Bonds carried at amortised cost	118,989	92,877	368,843	72,994	**653,703**
Finance lease receivables	31,134	56,432	113,087	3,149	**203,802**
Other financial assets	132,270	20,325	1,664	-	**154,259**
Total financial assets	**4,990,836**	**2,233,858**	**4,639,868**	**2,815,489**	**14,680,051**
Liabilities					
Due to Credit institutions	933,513	271,993	1,653,575	172,424	**3,031,505**
Customer accounts	1,007,472	129,666	-	8,307,608	**9,444,746**
Debt securities in issue	112	13,231	-	-	**13,343**
Other financial liabilities	72,399	5,806	-	-	**78,205**
Subordinated debt	3,049	23,245	182,986	441,639	**650,919**
Total financial liabilities	**2,016,545**	**443,941**	**1,836,561**	**8,921,671**	**13,218,718**
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	**2,861,445**	**1,789,917**	**2,803,307**	**(6,106,182)**	**1,348,487**
Cumulative gap as of 31 December 2018	**2,861,445**	**4,651,362**	**7,454,669**	**1,348,487**	

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

35 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	1,428,771	-	-	-	**1,428,771**
Due from other banks	32,541	1,521	3,727	-	**37,789**
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	104,537	16,265	13,333	-	**134,135**
Total financial assets	**4,393,968**	**1,930,065**	**3,753,831**	**2,133,314**	**12,211,178**
Liabilities					
Due to Credit institutions	1,137,076	351,381	1,014,480	141,777	**2,644,714**
Customer accounts	846,121	137,146	-	6,852,056	**7,835,323**
Debt securities in issue	47	7,778	12,870	-	**20,695**
Other financial liabilities	75,081	4,433	260	-	**79,774**
Subordinated debt	3,471	49,694	97,372	276,251	**426,788**
Total financial liabilities	**2,061,796**	**550,432**	**1,124,982**	**7,270,084**	**11,007,294**
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	**2,216,598**	**1,379,633**	**2,628,849**	**(5,136,770)**	**1,088,310**
Cumulative gap as of 31 December 2017	**2,216,598**	**3,596,231**	**6,225,080**	**1,088,310**	

35 Financial and Other Risk Management (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	944,767	-	-	-	**944,767**
Due from other banks	4,416	4,312	5,541	9,555	**23,824**
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	63,484	8,709	19,702	-	**91,895**
Total financial assets	**3,695,673**	**1,618,966**	**3,148,332**	**1,620,549**	**10,083,520**
Liabilities					
Due to Credit institutions	796,547	260,046	988,857	154,526	**2,199,976**
Customer accounts	724,083	154,672	-	5,582,827	**6,461,582**
Debt securities in issue	145	5,277	18,086	-	**23,508**
Other financial liabilities	46,464	2,545	1,144		**50,153**
Subordinated debt	3,333	4,893	125,174	234,981	**368,381**
Total financial liabilities	**1,570,572**	**427,433**	**1,133,261**	**5,972,334**	**9,103,600**
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	**2,068,563**	**1,191,533**	**2,015,071**	**(4,351,785)**	**923,382**
Cumulative gap as of 31 December 2016	**2,068,563**	**3,260,096**	**5,275,167**	**923,382**	

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.

35 Financial and Other Risk Management (Continued)

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 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.

[1] https://www.bp.com/en_ge/bp-georgia/about-bp/bp-in-georgia/south-caucasus-pipeline--scp-.html

35 Financial and Other Risk Management (Continued)

Operating environment (continued). 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%.

36 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.

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 92.

The table below presents the capital adequacy ratios as well as minimum requirements set by the NBG.

In thousands of GEL	**2018**	**2017**	**2016**
Tier 1 Capital	1,678,716	1,437,218	1,041,270
Tier 2 Capital	672,553	448,069	380,751
Regulatory capital	**2,351,269**	**1,885,287**	**1,422,021**
Risk-weighted Exposures			
Credit Risk Weighted Exposures	11,458,497	9,754,146	9,399,140
Risk Weighted Exposures for Market Risk	179,381	28,802	45,689
Risk Weighted Exposures for Operational Risk	1,516,993	970,241	576,628
Total Risk-weighted Exposures	**13,154,871**	**10,753,189**	**10,021,457**
Minimum Tier 1 ratio	**11.8%**	**10.3%**	**8.5%**
Tier 1 Capital adequacy ratio	**12.8%**	**13.4%**	**10.4%**
Minimum total capital adequacy ratio	**16.7%**	**12.9%**	**10.5%**
Total Capital adequacy ratio	**17.9%**	**17.5%**	**14.2%**

36 Management of Capital (Continued)

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 Exposures 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**

	2017	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures 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%**

36 Management of Capital (Continued)

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 Exposures and Securities	2,397,259	1,086,262
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	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**

36 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	568	4,735	4,383
Total tier 1 capital	**2,023,303**	**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	**2,760,545**	**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).

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2018, 2017 and 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**

36 Management of Capital (Continued)

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 available for sale	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 available for sale	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**

37 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.

37 Contingencies and Commitments (Continued)

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 6,844 thousand (31 December 2017: 6,465 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. 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 2018, 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 gross credit related commitments	**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).

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of December 2018 is GEL 1,195,847 thousand and GEL 4,393 thousand (2017: GEL 612,311 thousand and GEL 2,067 thousand; 2016: GEL 426,608 thousand and GEL 2,635 thousand).

37 Contingencies and Commitments (Continued)

Fair value of credit related commitments and financial guarantees 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:

In thousands of GEL	**2018**	**2017**	**2016**
Georgian Lari	854,000	618,558	409,498
US Dollars	955,829	734,970	545,621
Euro	218,091	166,304	101,892
Other	43,762	69,539	89,809
Total	**2,071,682**	**1,589,371**	**1,146,820**

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).

38 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 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 compre-hensive income**	**Cash flows**
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 attribu-table to non-controlling interest**	**Accumulated non-controlling interest in the subsidiary**
TBC Leasing JSC	0.39%	14	70
TBC Kredit LLC	25%	275	4,165
United Financial Corporation JSC	1.34%	63	500

38 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	Total compre-hensive income	Cash flows
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 a non-controlling interest as of 31 December 2016:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attribu-table to non-controlling interest	Accumulated non-controlling interest in the subsidiary
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	Total compre-hensive income	Cash flows
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)

39 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 (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru-ments (d)	Cash collateral received (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**

39 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:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instru-ments (d)	Cash collateral received (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**

39 Offsetting Financial Assets and Financial Liabilities (Continued)

As of 31 December 2016, 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 (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instru-ments (d)	Cash collateral received (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.

40 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	1,370	1,767	508
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(2,030)	(909)	(320)
Fair value of Interest rate swaps, included in other financial liabilities	-	(267)	(1,055)
Total	**(660)**	**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 (-)	-	(119,465)	-	(1,360)	-	(1,604)
- GEL receivable on settlement (+)	442,711	-	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	**581,674**	**(582,334)**	**180,106**	**(179,248)**	**20,281**	**(20,093)**
Net fair value of foreign exchange forwards and gross settled currency swaps		**(660)**	**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 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 43.

41 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 (available for sale before 2018)												
- Government notes	-	-	-	**-**	-	-	-	**-**	-	1,016	-	**1,016**
- Certificates of Deposits of National Bank of Georgia	-	14,985	-	**14,985**	-	7,728	-	**7,728**	-	36,002	-	**36,002**
- Corporate bonds	-	549,477	-	**549,477**	-	328,761	-	**328,761**	-	150,073	-	**150,073**
- Netherlands Government Bonds	-	66,760	-	**66,760**	-	-	-	**-**	-	241,810	-	**241,810**
- Ministry of Finance Treasury Bills	-	373,447	-	**373,447**	-	319,745	-	**319,745**	-	-	-	**-**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	-	1,370	-	**1,370**	-	1,747	-	**1,747**	-	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	**-**	**1,006,039**	**277,798**	**1,283,837**	**-**	**657,981**	**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	-	2,030	-	**2,030**	-	909	-	**909**	-	320	-	**320**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	-	2,030	-	**2,030**	-	**1,176**	**-**	**1,176**	-	**1,375**	**-**	**1,375**

There were no transfers between levels 1 and 2 during the year ended 31 December 2018 (2017: none; 2016: none).

41 Fair Value Disclosures (Continued)

(a) Recurring fair value measurements (continued)

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

In thousands of GEL	Fair value at 31 December 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	1,004,669	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	1,370	1,747	508	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**1,006,039**	**657,981**	**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	2,030	909	320	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**2,030**	**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).

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.

41 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	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS												
Cash and cash equivalents	1,164,403	-	-	**1,164,403**	1,428,771	-	-	**1,428,771**	944,767	-	-	**944,767**
Due from other banks	-	37,384	-	**37,384**	-	37,789	-	**37,789**	-	*23,824*	-	**23,824**
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	-	660,915	-	**653,703**	-	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	-	-	152,889	**152,889**	-	-	132,368	**132,368**	-	-	91,387	**91,387**
NON-FINANCIAL ASSETS												
Investment properties, at cost	-	-	97,425	**84,296**	-	-	85,012	**79,232**	-	-	123,852	**95,615**
TOTAL ASSETS	**1,164,403**	**2,121,108**	**10,783,235**	**13,757,738**	**1,428,771**	**1,530,557**	**9,731,338**	**11,630,705**	**944,767**	**1,392,215**	**7,721,314**	**9,747,924**
FINANCIAL LIABILITIES												
Due to credit institutions	-	3,028,182	-	**3,031,505**	-	2,650,156	-	**2,644,714**	-	2,199,415	-	**2,199,976**
Customer accounts	-	5,891,364	3,569,222	**9,444,746**	-	4,995,970	2,951,983	**7,835,323**	-	4,004,205	2,468,481	**6,461,582**
Debt securities in issue	-	13,343	-	**13,343**	-	20,695	-	**20,695**	-	23,508	-	**23,508**
Other financial liabilities	-	76,175	-	**76,175**	-	78,598	-	**78,598**	-	48,778	-	**48,778**
Subordinated debt	-	648,803	-	**650,919**	-	425,808	-	**426,788**	-	369,320	-	**368,381**
TOTAL LIABILITIES	**-**	**9,657,867**	**3,569,222**	**13,216,688**	**-**	**8,171,227**	**2,951,983**	**11,006,118**	**-**	**6,645,226**	**2,468,481**	**9,102,225**

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).

42 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	1,164,403	-	-	**1,164,403**
Due from other banks	37,384	-	-	**37,384**
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	653,703	-	-	**653,703**
Other financial assets:				
- Other financial receivables	154,259	-	-	**154,259**
TOTAL FINANCIAL ASSETS	**13,471,010**	**1,005,239**	**-**	**14,476,249**
INVESTMENTS IN LEASES	**-**	**-**	**-**	**203,802**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**772,837**
TOTAL ASSETS	**-**	**-**	**-**	**15,452,888**

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	1,428,771	-	-	-	**1,428,771**
Due from other banks	37,789	-	-	-	**37,789**
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	132,368	-	-	1,767	**134,135**
TOTAL FINANCIAL ASSETS	**11,407,63 7**	**657,938**	**143,836**	**1,767**	**12,211,178**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**-**	**726,020**
TOTAL ASSETS	**-**	**-**	**-**	**-**	**12,937,198**

42 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	944,767				944,767
Due from other banks	23,824	-	-	-	23,824
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	91,387	-	-	508	91,895
TOTAL FINANCIAL ASSETS	**9,557,278**	**430,703**	**95,031**	**508**	**10,083,520**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**-**	**678,239**
TOTAL ASSETS	**-**	**-**	**-**	**-**	**10,761,759**

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.

43 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 TBC Bank Group 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. Entities under common control include TBC Bank Group PLC's Insurance subsidiary.

Transactions between TBC Bank Group 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[4]).

As of 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
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 %)	81,311	27,095	21,328	11,123
Guarantees	-	10,216	-	35
Provision on guarantees	-	36	-	-

The income and expense items with related parties except from key management compensation for the year 2018 were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Interest income - loans and advances to customers	-	22	591	-
Interest expense	5,879	411	301	563
Gains less losses from trading in foreign currencies	-	479	65	25
Foreign exchange translation gains less losses	-	28	352	-
Fee and commission income	3	87	50	8
Administrative and other operating expenses (excluding staff costs)	-	89	297	-

[4] https://www.nbg.gov.ge/uploads/legalacts/fts/eng/regulation_on_the_management_of_the_conflict_of_interests.pdf

43 Related Party Transactions (Continued)

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	Companies under common control
Amounts advanced to related parties during the year	2,465	13,547	-
Amounts repaid by related parties during the year	(1,055)	(10,195)	-

During the year 2018, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2018 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2018 would have been GEL 214,767 thousand lower.

As of 31 December 2018, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	Balance as of 31 December 2018
Gross amount of loans and advances granted to subsidiaries	64,782
Customer accounts of subsidiaries	36,971
Bonds Carried at Amortised Cost	190
Other Financial Assets	10,995
Other Assets	495
Other Financial Liabilities	2,405
Investment in subsidiaries	26,761

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	2018
Interest income	5,423
Interest expense	2,556
Fee and commission income	1,757
Fee and commission expense	15,857
Foreign exchange translation gains less losses	56
Other operating income	121
Administrative and other operating expense	5,001

As of 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of GEL	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
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 %)	11,621	40,100	11,190	6,874
Guarantees	-	9,901	512	14
Other borrowed funds	24,000	-	-	-
Provision on guarantees	-	30	2	-

43 Related Party Transactions (Continued)

The income and expense items with related parties except from key management compensation for the year 2017 were as follows:

In thousands of GEL	**Note**	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Interest income - loans and advances to customers		-	20	444	-
Interest income - available securities for sale		-	747	-	-
Interest expense		1,807	928	449	398
Gains less losses from trading in foreign currencies		-	189	56	15
Foreign exchange translation gains less losses		-	(46)	(36)	-
Fee and commission income		9	122	94	8
Fee and commission expense		-	104	-	-
Administrative and other operating expenses (excluding staff costs)		-	58	239	-
Net loss on derivative financial instruments	40	-	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**	**Companies under common control**
Amounts advanced to related parties during the year	573	3,012	-
Amounts repaid by related parties during the year	(1,293)	(3,920)	-

As of 31 December 2017, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**Balance as of 31 December 2017**
Gross amount of loans and advances granted to subsidiaries	46,546
Customer accounts of subsidiaries	48,046
Bonds Carried at Amortised Cost	184
Other Financial Assets	18,957
Other Assets	495
Other Financial Liabilities	2,065
Investment in subsidiaries	32,796

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**2017**
Interest income	3,345
Interest expense	2,593
Fee and commission income	297
Fee and commission expense	15,276
Other operating income	588
Administrative and other operating expense	3,353

43 Related Party Transactions (Continued)

As of 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of GEL	**Note**	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
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	40	-	1,055	-	-
Due to credit institutions (contractual interest rate: 5.7%–9.7%)		-	257,415	-	-
Customer accounts (contractual interest rate: 0.0%-13.5%)		2,719	38,998	14,548	4,314
Other borrowed funds		2,000	-	-	-
Guarantees		-	28,509	-	-
Provision on guarantees		-	192	-	-

The income and expense items with related parties except from key management compensation for the year 2016 were as follows:

In thousands of GEL	**Note**	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Interest income		32	160	399	-
Interest expense		1,181	16,254	503	41
Gains less losses from trading in foreign currencies		-	115	18	-
Foreign exchange translation gains less losses		-	191	465	-
Fee and commission income		1	70	13	-
Fee and commission expense		-	580	-	-
Administrative and other operating expenses (excluding staff costs)		-	1	155	-
Net loss on derivative financial instruments	40	-	206	-	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2016 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Amounts advanced to related parties during the year	7,264	10,568	-
Amounts repaid by related parties during the year	(9,596)	(5,722)	-

43 Related Party Transactions (Continued)

As of 31 December 2016, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	Balance as of 31 December 2016
Gross amount of loans and advances granted to subsidiaries	24,359
Cash and cash equivalents	132,875
Due from other banks	17,029
Bonds Carried at Amortised Cost	188
Other Financial Assets	29,898
Other Assets	443
Investment in subsidiaries	383,124
Customer accounts of subsidiaries	18,905
Due to other banks	33,672
Other Financial Liabilities	1,742

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	2016
Interest income	2,464
Interest expense	1,506
Fee and commission income	1,649
Fee and commission expense	10,044
Other operating income	27,425
Administrative and other operating expense	2,648

Compensation of the key management personnel and supervisory board members is presented below:

	2018		2017		2016	
In thousands of GEL	Expense	Accrued liability	Expen se	Accrued liability	Expense	Accrued liability
Salaries and bonuses	11,094	270	11,013	-	12,076	-
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	**26,887**	**8,665**	**23,387**	**9,772**	**29,335**	**10,715**

44 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**

Non-cash consideration includes the fair value as at acquisition date of the loan issued from the Bank to the Bonaco.

Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	**Note**	**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.

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.

45 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
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

ISSUER

JSC TBC Bank
7 Marjanishvili Street
0102 Tbilisi
Georgia

JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Renaissance Securities (Cyprus) Limited
2-4 Arch. Makariou III, Ave
9th Floor, Capital Center
1065 Nicosia
Republic of Cyprus

UBS AG London Branch
5 Broadgate
London EC2M 2QS
United Kingdom

JOINT LEAD MANAGER

TBC Capital LLC
7 Marjanishvili Street
Tbilisi 0102
Georgia

TRUSTEE

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

PRINCIPAL PAYING AGENT, CALCULATION AGENT AND TRANSFER AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR

The Bank of New York Mellon SA/NV, Luxembourg Branch
Vertigo Building—Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg
Grand Duchy of Luxembourg

LEGAL ADVISERS

To the Issuer as to English law and United States law:
Baker & McKenzie LLP
100 New Bridge Street
London EC4V 6JA
United Kingdom

To the Joint Bookrunners as to English law:
Latham & Watkins (London) LLP
99 Bishopsgate
London EC2M 3XF
United Kingdom

To the Joint Bookrunners as to United States law:
Latham & Watkins LLP
Ulitsa Gasheka,
6 Ducat III, Office 510
Moscow 125047
Russian Federation

To the Issuer as to Georgian law:
Dentons Georgia LLC
10 Melikishvili Street
Tbilisi 0179
Georgia

To the Joint Bookrunners as to Georgian law:
BGI Advisory Services Georgia LLC (BGI Legal)
18 Rustaveli Avenue, II floor
Tbilisi 0108
Georgia

To the Trustee as to English law:
White & Case LLP
Level 6, Burj Daman
Happiness Street
Dubai International Financial Centre

LISTING AGENT

Arthur Cox Listing Services Limited
Ten Earlsfort Terrace
Dublin 2
Ireland

INDEPENDENT AUDITORS TO THE ISSUER

PricewaterhouseCoopers Georgia LLC
#12 M. Aleksidze Street
King David Business Center, 7th Floor
Tbilisi 0171
Georgia