თიბისი ბანკი
TBC BANK

# INVESTING IN OPPORTUNITY

## ANNUAL REPORT 2015

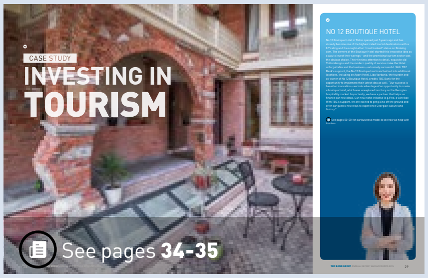
თიბისი ბანკი
TBC BANK

www.tbcbank.ge/IR

# TBC BANK IS A LEADING UNIVERSAL BANK IN GEORGIA, OFFERING A BROAD RANGE OF PRODUCTS AND SERVICES THROUGH ITS EXTENSIVELY DEVELOPED RETAIL, CORPORATE, SME AND MICRO BANKING BUSINESS LINES.

## TBC BANK (TBCB: LI) HAS BEEN LISTED ON THE LONDON STOCK EXCHANGE SINCE JUNE 2014.



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TBC Bank standalone statements according to the National Bank of Georgia reporting standards are available on the Bank's Investor Relations website at www.tbcbank.ge/IR

# FINANCIAL HIGHLIGHTS FY 2015
(IN MILLIONS GEL)

## TOTAL OPERATING INCOME
**577.0**
FY 2014: 458.3
Change +25.9%

## OPERATING EXPENSES
**253.1**
FY 2014: 226.3
Change +11.9%

## PROFIT BEFORE TAX
**247.9**
FY 2014: 182.9
Change +35.5%

## PROFIT FOR THE PERIOD
**218.7**
FY 2014: 158.5
Change +38.0%

## TOTAL ASSETS
**6,935.0**
13 Dec 2014: 5,423.5
Change +27.9%

## GROSS LOANS
**4,639.0**
13 Dec 2014: 3,706.3
Change +25.2%

## CUSTOMER DEPOSITS
**4,177.9**
13 Dec 2014: 3,322.4
Change +25.7%

## ROAE
**20.1%**
FY 2014: 18.4%
Change 1.7%

## ROAA
**3.4%**
FY 2014: 3.3%
Change 0.1%

## PRE-PROVISION ROAE
**27.1%**
FY 2014: 24.2%
Change 2.9%

## COST TO INCOME
**43.9%**
FY 2014: 49.4%
Change -5.5%

## COST OF RISK
**1.7%**
FY 2014: 1.6%
Change 0.1%

## NPL TO GROSS LOANS
**4.8%**
FY 2014: 3.1%
Change 1.7%

## BASEL I CAR
**31.0%**
FY 2014: 30.4%
Change 0.6%

## BASEL II/III TOTAL CAR
**16.0%**
FY 2014: 15.0%
Change 1.0%

# SELECTED OPERATING DATA

### REMOTE CHANNEL TRANSACTIONS / TOTAL NON-CASH TRANSACTIONS
**84%**
FY 2014: 82.0%

### CASH-IN TERMINALS (TBC PAY)
**2,395**
FY 2014: 2,112

### EMPLOYEES
**5,262**
FY 2014: 5,117

### BRANCHES
**128**
FY 2014: 125

### POS TERMINALS
**8,800**
FY 2014: 4,820

### ATMS
**358**
FY 2014: 352

## MID-TERM TARGETS

Please find all ratio explanations on page 69.

| | Current performance | Mid-term targets |
|---|---|---|
| Loan book growth (gross)[1] | 25.2% p.a. | c.20% p.a. |
| ROE[2] | 20.1% | 20% |
| Cost income ratio[3] | 43.9% | <40% |
| Equity Tier 1 capital ratio[4] (Based II/III) | 12.8% | c.10.5% |
| Divided payout ratio[5] | 25% | 25% |

1. 12-month growth as of YE 2015, on TBC consolidated IFRS basis
2. TBC consolidated IFRS basis (YE 2015)
3. Cost income ratio calculated as ratio of operating expenses to operating income (excl. loan impairment expense); TBC consolidated IFRS basis (YE 2015)
4. Based on the relevant Basel II/III methodology prevailing at current time; subject to capital targets and dividend payouts (YE 2015)
5. Dividends under "Current performance" shows TBC Bank payout ratio in 2015 based on 2014 performance; under "Mid-term targets" – on TBC consolidated IFRS basis; dividend target was approved on shareholder meeting in May 2015

# AT A GLANCE

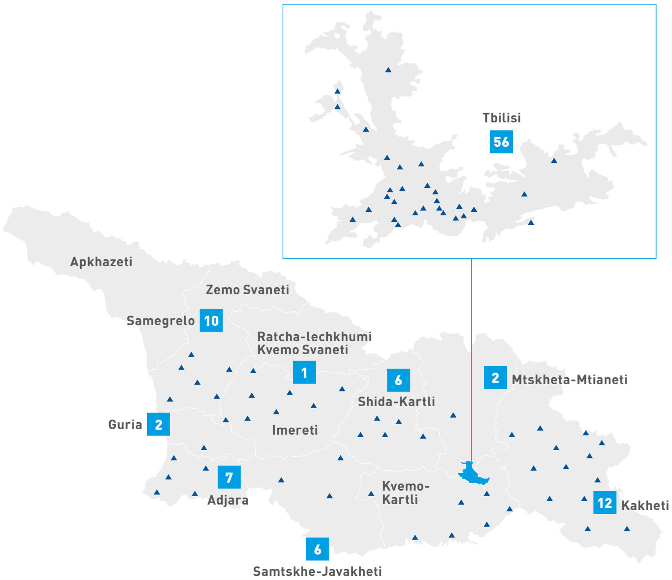
## WE CREATE NEW OPPORTUNITIES FOR THE SUCCESS OF PEOPLE AND BUSINESSES.

TBC Bank is a leading universal banking group in Georgia with an unmatched market share of retail deposits at 34.3%[1], and a number two position in total loans and deposits with 28.7% and 29.0% market share, respectively.

We service over 1.6 million clients through a diversified multichannel platform that comprises 135 branches (including TBC Kredit branches), one of the largest networks of ATMs and POS terminals in Georgia, global award-winning internet banking, market-leading mobile, iPad and iPhone banking, a call centre, and TBC Pay terminals and kiosks.

We employ over 5,300[2] people across our operations, more than half of whom have been with TBC for four or more years.

1 All market share data is quoted according to the figures published by the NBG.
2 Including employees of all TBC Bank subsidiaries.




TBC Bank: Number of branches in the region

Location of branches

### Our Multichannel Distribution Platform

TBC Bank's globally recognised multichannel distribution platform complements our full service model perfectly. While our branches are carefully designed with a primary focus on customer satisfaction, our leading multichannel distribution platform allows us to offload routine transactions from branches to e-channels. As a result, TBC has achieved a market-leading portfolio of gross loans per branch of GEL 36 million[3].

Over the past year, our multichannel capabilities have been recognised as best in the country and in the wider region, as well as being acclaimed globally.

In 2016, TBC launched an entirely new concept of branch design with a particular focus on customer experience. The new design reflects TBC Bank's welcoming, user-friendly and transparent approach to banking and has been created in partnership with Allen International, a strategic design consultancy focused on financial services.

The redesigned branches leverage TBC Bank's strength in multichannel banking and feature cutting-edge e-banking tools and technology.
The new concept was developed specifically for TBC Bank as a result of a comprehensive tailored study of the Bank's existing branches and its clients' needs and aspirations.

### Customer Experience

TBC Bank has one of the best known and most trusted brands in Georgia. As a result of the Bank's tireless focus on customer-centric service and continued investment in introducing the most advanced banking technologies on the market, TBC Bank has built a strong reputation and long-standing relationships with its customers. According to internal and external research, TBC Bank maintained market leading positions in customer experience in 2015 with the highest Customer Satisfaction (CSAT)[4] and Net Promoter (NPS)[5] scores in the country's banking industry.

### TBC Bank Brand

TBC Bank has one of the best known and most trusted brands in Georgia. This is largely due to our high quality customer experience, strong reputation, long-standing relationships with customers, traditional focus on social responsibility, and targeted marketing campaigns.

Over the years, we have received a number of prestigious industry awards, including being named as "Best Bank in Georgia" seven times by Global Finance magazine and The Banker and three times by EMEA Finance and Euromoney.

### Products and Services

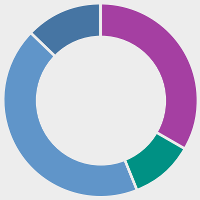
TBC Bank offers a wide range of banking products and services to its retail, corporate, SME and micro clients with the majority of our business concentrated in Georgia, which accounted for 99% of TBC's total assets and 100% of its net income as at and for the year ended 31 December 2015.

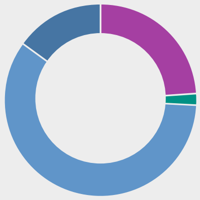
3 Gross loan portfolio according to NBG accounting standards for comparison purposes.
4 CSAT Score is derived from Survey conducted by ACT (independent research company) and is based on different measures. Survey type - face to face interviews, Sample size - 2000 respondents per bank
5 The NPS is derived from the survey conducted by 2 separate research companies: ACT and IPM and measures the likelihood that a customer would recommend TBC to a friend. Final score is an average of scores from those separate surveys. IPM survey is phone based, Sample size 2,000 respondents per bank.

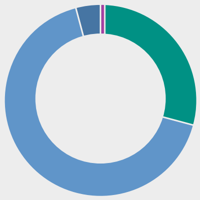
# AT A GLANCE
CONTINUED

## SEGMENT REVIEWS

| CORPORATE* | MICRO* | RETAIL* | SME* |
|---|---|---|---|
| Customer loans | Customer loans | Customer loans | Customer loans |
| **32%** | **11%** | **44%** | **13%** |
| (FY 2015, % of total, gross) | (FY 2015, % of total, gross) | (FY 2015, % of total, gross) | (FY 2015, % of total, gross) |
| GEL 1,500m | GEL 493m | GEL 2,020m | GEL 626m |
| Customer deposits | Customer deposits | Customer deposits | Customer deposits |
| **24%** | **2%** | **59%** | **15%** |
| (FY 2015, % of total) | (FY 2015, % of total) | (FY 2015, % of total) | (FY 2015, % of total) |
| GEL 1,001m | GEL 74m | GEL 2,470m | GEL 633m |
| Number of customers** | Number of customers** | Number of customers** | Number of customers** |
| **c.1.7k** | **c.479k** | **c.1.1m** | **c.67k** |
| See page **32** | See page **36** | See page **31** | See page **33** |







Source: Company reports
Note: Customer classification criteria is converted to GEL with the exchange rate of 1 USD = 2.39 GEL.
* Corporate segment includes business customers that have annual revenue of GEL 8.0 million or more or less have been granted a loan in a n 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 segment business customers with loans below USD 70K, as well as pawn loans, credit cards and cash cover loans granted in TBC Bank Constanta branches, and deposits up to USD 20K in urban areas and up to USD 100K in rural areas of the customers of TBC Bank Constanta branches. Some other customers may be assigned to the Micro segment on a discretionary basis.
* Retail segment includes individuals that are not included in the other categories.
* SME segment includes business customers that are not included in either Corporate or Micro segments; Some other legal entity customers may also be assigned to the SME segment on a discretionary basis.
** Number of registered customers as at 31 December 2015.

### Retail Banking

TBC Bank is a market leader in retail loans and retail deposits as at 31 December 2015. The retail segment represents 59.1% of the total deposit portfolio and 43.5% of the total loan portfolio, making it the Group's largest segment in terms of both deposits and loans. We offer a full range of products to our retail customers, account and deposit products through our cutting-edge multichannel platform and a comprehensive distribution network, with special products and services offered to affluent and high net worth clients. We serve more than one million retail customers.

By 31 December 2015, the Group's retail loan portfolio reached GEL 2,020 million with the market share for individuals at 31.6%. At the same time, our market share in deposits of individuals stood at 34.3%.

### Corporate Banking

Corporate Banking is a traditionally strong area of the Bank representing 32.3% of TBC's total loan portfolio and 24.0% of the total deposits portfolio. We serve more than 1,400 corporate clients in Georgia, offering diverse lending, card and deposit products (including syndicated lending), foreign exchange operations, hedging, trade and project finance products (including factoring), escrow services, cash collection, insurance packages (through GPI Holding, a partner insurance company), leasing (through TBC Leasing) and brokerage and research services (through its brokerage and corporate advisory arm, TBC Capital).

As at 31 December 2015, we held the second largest market share for legal entity loans and deposits of 26.2% and 23.4%, respectively.

## LOCAL OPERATIONS

თიბისი ბანკი TBC BANK

**96.97%**

Corporate Banking
Retail Banking
SME Banking
Micro Banking

თიბისი ლიზინგი TBC LEASING

**1.38%**

Leasing Service

Real Estate Management Fund

**0.02%**

Real Estate Management

**Other**

**0.50%**

## FOREIGN OPERATIONS

TBC KREDİT

**1.12%**

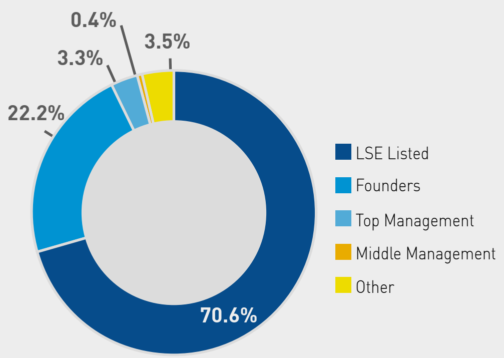
Non-Banking Credit Institution (Azerbaijan)

TBC INVEST

**0.003%**

Non Resident Deposits Attraction (Israel)

## SHAREHOLDERS




### SME Banking

SME banking accounted for 13.5% and 15.2% of TBC's total loans and total deposits portfolios, respectively. TBC offers a diverse range of products and services to its SME segment customers, including trade finance, project finance, asset finance and working capital loans. We serve approximately 67,000 clients. TBC Bank remains the only bank to offer important education and value-added services to SME businesses through its Business Support Programme (see page 33 for additional information).

### Micro Banking

TBC Bank completed the merger with Bank Constanta in January 2015. The micro banking segment is the smallest but the fastest growing segment of the Group, accounting for 10.6% and 1.8% of total loans and total deposits, respectively. This segment offers various types of loan and deposit products tailored to client needs. As at 31 December 2015, we served approximately 479,000 micro banking customers in Georgia.

### Subsidiaries

In addition to its core banking business that TBC conducts within its retail, corporate, SME and micro segments through TBC Bank and TBC Kredit, TBC conducts supplementary operations through its other subsidiaries. These operations represented 1.9% of our total assets and 2.1% of our consolidated net income for the year ended 31 December 2015.For a more detailed overview of our subsidiaries, please see Operating and Financial Review on pages 30 and 52.

### Ratings

TBC Bank is rated by Fitch Rating Agency and Moody's Investor Services. The Bank's current ratings are BB- (Long Term IDR)/ B (Short Term IDR) assigned by Fitch and B1 (FC)/ Ba3 (LC) assigned by Moody's.

# CHAIRMAN'S STATEMENT

AT TBC BANK, WE HAVE BUILT A COMPANY THAT IS A PARTNER OF CHOICE FOR OUR CLIENTS, SUPPORTING THE ENGINE OF ENTREPRENEURSHIP AND BUSINESS IN GEORGIA.

**MAMUKA KHAZARADZE**
CHAIRMAN

**We have been able to achieve this success through a consistent focus on forming a highly experienced and talented team with an in-depth knowledge of the local market. As an important development in 2015, the Bank announced its plans to move to the Premium Segment of the London Stock Exchange.**

Georgia has embarked on an exciting journey toward becoming an economic, transit, tourism and financial hub in the region. The country is actively moving toward implementing its Association Agreement with the EU and advancing several investment projects with its partners in strategic sectors, including energy, hospitality, agriculture and communications. Throughout this Report, we have featured the work of some of our customers from these key areas, who work tirelessly toward advancing their business and the country's economy. In our Strategic Report, we also provide a comprehensive review of the macroeconomic conditions in Georgia and the country's outlook for investment.

I am pleased to report that TBC Bank has completed another successful year and has comfortably overcome the temporary economic turbulence stemming from regional developments. We have strengthened our market positions across all business segments and delivered the targeted level of profitability for our shareholders. The Bank's management team is effectively implementing our well-designed strategy for business development, while maintaining a particular focus on the financial health and stability of our customers within this macroeconomic environment.

## Key Investment Opportunity in Georgia

We believe that our shareholders appreciate our clear focus on consistently delivering strong performance. In 2015, we outperformed our competition in terms of business growth, while maintaining solid profitability and strong portfolio quality. The Bank closed the year with a record net income of GEL 218.7 million and a Return on Average Equity (ROAE) of 20.1%. As announced, the Bank's Supervisory Board plans to distribute the targeted 25% of the 2015 consolidated net income as dividends, pending approval at the Annual General Meeting of shareholders.

## The Leading Team in Georgia

We owe our success to the deeply experienced team of talented individuals, who invest their significant resources for the benefit of our clients, the Bank and our country. Throughout this Report, we have featured those employees who work with our clients on a daily basis to ensure their business objectives are met with appropriate financial and transactional support.

I am delighted that since its founding, TBC Bank has been privileged to work with the leading professionals in Georgia. Our employee base is young and dedicated with 88% of the workforce aged between 20 and 39 and 34% of all employees staying with the Bank for 4-10 years. Importantly, we are proud to have women representing up to 70% of total employees and 40% of middle management.

TBC Bank has created a unique workplace that nurtures talent and provides the right development opportunities for our market-leading workforce. We have created a fund that supports academic aspirations for the members of middle management and provides them with financing for continued education and professional qualification. Additionally, an innovative in-house project – TBC Academy – offers bespoke training courses that help all of the Bank's employees develop their skills and expertise in various areas of banking.

A detailed review of these and other employee benefits is provided on page 70 of this Report.

## Key Financial Partner in Georgia

We are proud of the unique business model we have created in Georgia. Our Bank started its business by working with some of the most entrepreneurial and innovative companies and clients in Georgia. These companies now play an integral part in the country's economy. By enhancing our services to a level that supports their growth and responds to their current and potential requirements, we are proud to act as the front of mind financial services partner in Georgia.

In this spirit, we started a ground-breaking value-added service, TBC Business Support program that has further enriched its offering during 2015. I am proud to see that, with our business and market expertise, we have been able to train leaders from over 5,000 small and medium sized companies (SMEs) in essential areas, such as budgeting, tax, and business expansion. Our free educational portal, www.tbcbusiness.ge provides consultation opportunities with leading firms, attracting more than 800,000 visitors since the project launch in 2014. More information about the program is provided on page 33 of the Report.

Moreover, I am honored to report that in 2015, we continued to maintain the largest retail deposit base in Georgia as TBC remains the most trusted bank for Georgian customers. This is due to our long-standing focus on creating customer-centric services, strong brand and high customer experience. This year, we introduced a new approach to retail banking through our breakthrough branch design, developed in partnership with a leading design consultant, Allen International. This new design concept will further enhance our position on the retail banking market. Additional information on the new branch design is provided on page 51.

## Culture of Giving Back

TBC Bank continues to work tirelessly on identifying the most effective and important means of giving back to our community and our employees. We act through a well-developed and comprehensive corporate social responsibility strategy to focus on traditional, as well as innovative projects that benefit culture, arts, sports and the wider society.

This year, I would like to highlight two important projects that help us promote Georgian culture and the achievements of our people beyond local borders.

**Georgian National Rugby Team**

Georgia has a deeply rooted tradition of excellence in sports. The Georgian rugby team has achieved outstanding success and spotlighted the talent of our athletes in an international arena. Through our new exclusive partnership with the National Rugby team we will support their aspirations and ambitious goals for years to come.

**Georgian National Ballet and Opera Theatre**

TBC Bank has a tradition of supporting Georgian arts. This year, we started a partnership with the Georgian National Ballet and Opera Theatre in order to work toward developing this exquisite art form in our country and promoting their talent to international audiences.

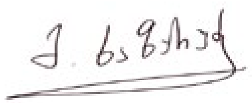
Our full CSR program includes these and other vital projects that continued in 2015, and is presented in our Strategic Report.

## Thank you

As Chairman, I am honoured to work with exceptional professionals on the Supervisory Board of the Bank. I would like to express my gratitude for their contribution to the success of our company.

Moreover, I would like to thank the Bank's strong management team and our employees, who support TBC Bank and its customers through both success and challenges every day. With their support, we are well positioned to continue creating value for our shareholders and other stakeholders by achieving the set performance targets.

Going forward, we intend to remain concentrated on classic banking activities in Georgia, a strategic differentiator for TBC Bank. We invest in the development of the local businesses and support their growth through products designed with innovative banking technologies and thorough knowledge of the market. Our plan to move to the Premium Listing segment of the London Stock Exchange will provide the opportunity of investing in this Georgian success story to a broader investor base.



**MAMUKA KHAZARADZE**
CHAIRMAN

# COMPANY HISTORY AND YEAR IN REVIEW

TBC BANK WAS FOUNDED IN DECEMBER 1992 BY MAMUKA KHAZARADZE AND BADRI JAPARIDZE, WHO CURRENTLY HOLD 22% OF THE BANK'S SHARES. TBC BANK LISTED ITS SHARES THROUGH GDRS ON THE MAIN MARKET OF THE LONDON STOCK EXCHANGE IN JUNE 2014 IN WHAT WAS THE LARGEST, INTERNATIONAL OFF-INDEX IPO FROM THE EMEA REGION.

TBC Bank launched its leading retail business line in 2006. In May 2011, we acquired an 80% stake in the fastest-growing microfinance bank in Georgia, the former Bank Constanta, and completed the full merger in January 2015. In 2015, TBC Bank confirmed its plans to move to the Premium Listing segment of the London Stock Exchange in the second half of 2016.

## 1992

TBC Bank is established with USD 500 initial capital. The bank is focused on the corporate segment with emphasis on smes.

## 1998

TBC Bank enters export/import financing operations segment.

## 2000

IFC and DEG acquire a combined 20% of TBC's share capital and become the Bank's first IFI shareholders. TBC Bank becomes the first Georgian company to obtain an international rating.

## 2001

TBC Bank launches its first internet banking service.

## 2002

The Banker Magazine, a Financial Times Group publication, names TBC Bank as 'Bank of the Year 2002 in Georgia,' the first such international recognition for the Bank.

## 2004

Non-banking operations, through TBC Leasing, are launched by the Bank (which later becomes market leader with 61% market share in 2013).

## 2006

EBRD acquires 10% shareholding in TBC Leasing.

CITI Bank provides a USD 35 million unsecured loan to TBC Bank. At this time, this is the largest line of credit ever provided by a foreign commercial bank to a Georgian bank.

TBC Bank launches its retail banking offering, with a retail product development and marketing strategy implemented with support from BBDO (marketing) and SENTEO (consulting).

## 2007

TBC's total assets exceed USD 1 billion.

## 2008

TBC acquires 75% shareholding in TBC Kredit (formerly SOA Kredit), a non-banking credit institution in Azerbaijan.

## 2009

TBC Bank broadens its shareholder base with EBRD, FMO, JP Morgan and Ashmore becoming shareholders in TBC Bank, and IFC and DEG contributing additional capital.

## 2011

TBC Invest establishes a representative office in Israel that acts as an intermediary between potential future clients and the Bank.

TBC acquires 80% shareholding in Bank Constanta, which specialises in microfinance.

## 2012

TBC Bank celebrates five years of market leadership in Retail Deposits with a 35% market share at the end of the year.

TBC Bank raises GEL 192 million in new financing through various equity and debt transactions, attracting new investors to Georgia and to its portfolio.

TBC Bank launches a number of key strategic initiatives:

- Multichannel distribution systems and now globally recognised services: new Internet & Mobile banking (iPhone, iPad, Android, Blackberry applications, PDA mobile banking);
- "Lean Banking" project to increase efficiency throughout the distribution network;
- CRM implementation project with industry-leading Oracle Siebel; and
- Basel II/III implementation project with support from Ernst & Young.

## 2013

TBC Bank submits its ICAAP report to the NBG.

TBC Bank launches its SME Business Support Programme, with support from IFC and ADB.

## 2014

TBC Bank completes its listing on the Main Market of the London Stock Exchange.

TBC Bank acquires EBRD share in TBC Leasing.

## 2015

TBC Bank completes a full merger with the former Bank Constanta, rebranding the microfinance institution's branches as TBC Bank Constanta.

TBC Broker is rebranded as TBC Capital offering Corporate Advisory, Research and Brokerage solutions in Georgia.

TBC Bank's brokerage subsidiary, TBC Capital, acts as the sole arranger of the largest GEL-denominated bond issuance on the Georgian market by the Asian Development Bank. This transaction followed another milestone bond placement by the EBRD in 2014, where TBC Capital also acted as the co-arranger.

**TBC Bank confirms its plans to seek a Premium Listing on the London Stock Exchange.**

## 2016

TBC Bank launches its breakthrough concept of branch design developed in partnership with Allen International.

TBC Bank becomes the official, exclusive sponsor of the Georgian National Rugby Team, aiming to promote rugby and rugby values in Georgian society, and to make rugby an inseparable part of Georgian culture.

## RECENT AWARDS


1. Global Finance Best Bank in Georgia 2012-2016
2. EMEA Finance Best Bank in Georgia 2011-2015
3. Euromoney Best Bank in Georgia 2011-2012 and 2014-2015
4. EBRD Deal of the Year award 2014
5. Global Finance Best FX provider 2013-2016
6. Global Finance Best Corporate and Consumer Internet Bank in Georgia 2012-2015 and Central and Eastern Europe sub-category awards for 2013-2015
7. The Banker and Private Wealth Management Magazine Best Private Bank in Georgia 2014-2015
8. Best Project Finance Deals 2014 in Central and Eastern Europe: Best Water Deal and Best Infrastructure Development Deal

**Visit the IR Website for more information on the Bank's awards.**

# CHIEF EXECUTIVE'S STATEMENT

**WE HAVE A CLEAR FOCUS ON**

The Georgian market and pure-play banking operations.

**BY LEVERAGING OUR KEY STRENGTHS IN**

- Strong and growing positions across all business segments;,
- award-winning multichannel capabilities,
- market-best customer experience, and
- strong brand

**...WE DEFINED A CLEAR STRATEGY**

to be the number one commercial bank in the country across all segments.

**VAKHTANG BUTSKHRIKIDZE**
CHIEF EXECUTIVE OFFICER

IN 2015, TBC BANK CONTINUED TO DELIVER ON ITS MEDIUM-TERM TARGETS SET OUT AT THE TIME OF OUR IPO. WE MAINTAINED STRONG PROFITABILITY AND OUTPERFORMED MARKET GROWTH, WHILE SUSTAINING ROBUST BALANCE SHEET QUALITY.

WE ARE ALSO ON TRACK TO DELIVER ON OUR PLANS TO MOVE TO THE PREMIUM LISTING SEGMENT OF THE LSE IN 2016, WHICH IS A NATURAL PROGRESSION FROM OUR SUCCESSFUL IPO AND THE NEXT LOGICAL STEP IN THE DEVELOPMENT OF THE COMPANY.

In 2015 the Georgian economy showed another year of resilience. We went through the challenges related to currency headwinds and pressures resulting from developments in the regional countries' economies. Georgia responded adequately, kept a free floating currency rate, focused on inflation management and continued implementing responsible monetary and fiscal policies. As a result, the economy maintained its competitiveness while both the trade and current account deficits improved and the economy posted an annual growth of 2.8% in 2015, above the initial estimates of both International Financial Institutions and the Georgian government.

In the context of this environment, we managed to deliver robust profitability and maintain sound asset quality as a result of our proactive approach and prudent management policies. In 2015, the Bank achieved a record GEL 219 million in net income with return on average equity (ROAE) of 20.1% and return on average assets (ROAA) of 3.4%. The principal drivers of our increased profitability were our solid net interest margin (NIM), growing non-interest income and decreasing cost to income ratio – in line with our strategy. In 2015, TBC Bank's total lending grew by 25.2% YoY, or by 8.1% on a constant currency basis, compared to 23.1% and 5.5%, respectively, for the overall Georgian banking sector. We also increased our total loans market share by 1.1pp YoY to 28.7%. Our total deposits grew by 25.7% YoY (6.5% on a constant currency basis). We maintained our long-standing leadership position in retail deposits with a market share of 34.3%, up 0.6pp YoY.

I am particularly pleased to see that we have realised the planned synergies from our merger with Bank Constanta, which, along with other relevant initiatives, has helped us to deliver a cost to income ratio (CIR) of 43.9%, outperforming our medium-term target of <45%.

FY 2015 ROAE

**20.1%**

Another important strategic initiative in 2015 was a structural and functional review of our risk function. This established a three-year development plan which aims to promote sustainable growth and resilient performance through prudent risk management. We see risk management as an enabler of the Bank's strategy and a key competitive advantage. In the final quarter of 2015, we announced an updated NPL reporting and provisioning methodology according to international best practice. As per the updated methodology, our NPLs stood at 4.8% as of 31 December 2015, a 1.7pp increase YoY. At year-end our updated NPL coverage ratio stood at 87% or 210% with collateral.

We remain committed to a conservative approach to our capital base and retain capital adequacy ratios that are well above the minimum requirements. As of 31 December 2015, the Bank's total capital adequacy ratio (CAR) per Basel II/III regulation stood at 16.0%, against the minimum requirement of 10.5%. We continue to operate with solid liquidity positions with the net loans to deposits+IFI funding standing at 95% and the Net Stable Funding Ratio (NSFR) at 116%.

We have also made considerable progress toward further enhancing our superior customer experience. In January 2016 we announced the launch of a redesigned branch concept, achieving another breakthrough in our customer experience offering. The new design reflects TBC Bank's welcoming, user-friendly and transparent approach to banking and we intend to gradually adapt all of our new branches to the new concept (please see Distribution Channels on page 26 for additional information).

We also continue to deliver impressive growth through our award-winning multichannel platform. TBC Bank has the leading internet (IB) and mobile banking (MB) services in the country with the highest number of active users at 230,000 and 110,000 for IB and MB respectively, by the end of 2015. In the same year, 84% of all transactions were completed through remote channels and our IB and MB accumulated an average of approximately 1.7 million visits per month.

In other significant developments, I am pleased to report that in 2015 we acted as the lead arranger for two important bond issuances in the local currency with a total sum of GEL 148 million. Local currency funding is vital for the Georgian financial sector and is aimed at supporting the trend of de-dollarising the Georgian economy over the long term.

## Mid-term Targets

Finally, I would like to update our shareholders on the progress we have made in 2015 against our medium-term targets set out during the Bank's IPO:

- despite an expected temporary slowdown in the short term, our medium-term target for loan growth remains at 20%.
- as we continue to deliver on our promises and gain more comfort on our profitability targets, we upgraded our medium term ROAE target to 20%.
- our cost to income ratio already surpassed our initial 45% target and therefore, we also updated this target to below 40% in the medium term.
- we intend to maintain a solid capital buffer with a targeted 10.5% equity Tier 1 capital ratio, and
- we reiterate our target dividend payout ratio of 25%.

## Outlook

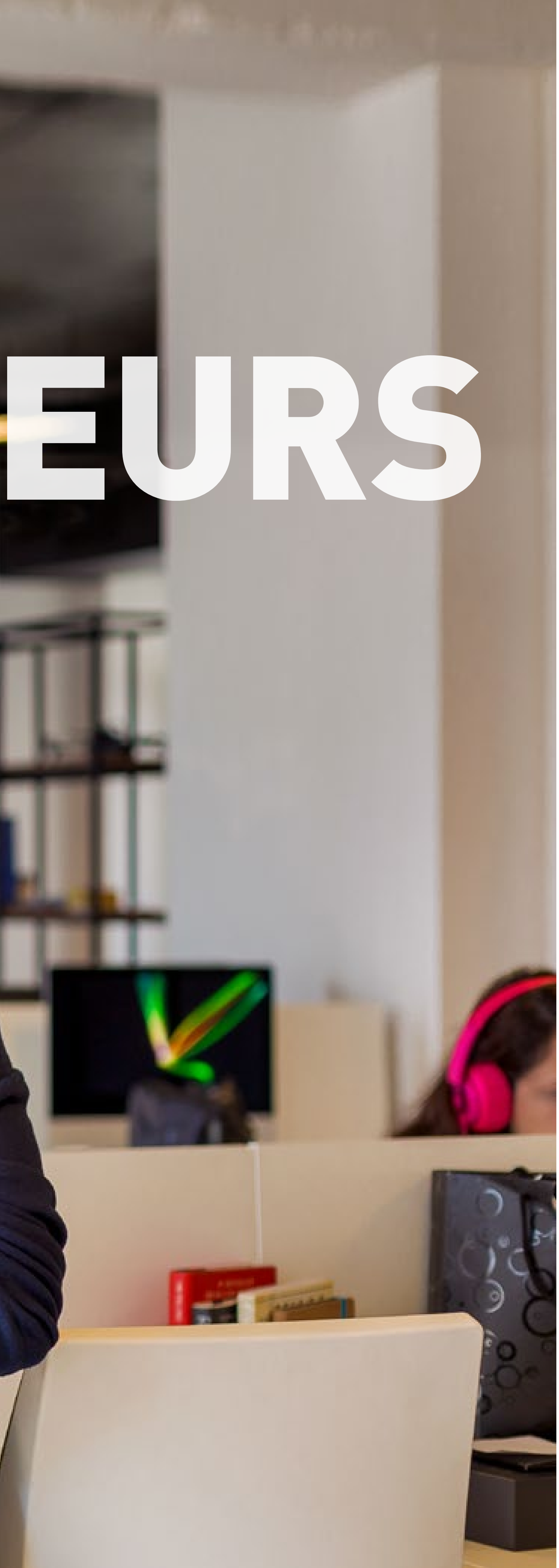
We are working toward completing our move to the Premium Listing segment of the LSE in the second half of 2016. We believe that this gives our story wider exposure and a higher profile and will help us expand our investor base.

As it currently stands, we are well positioned to benefit from the growth opportunities that are unfolding in Georgia. We are committed to our pure-play banking strategy in Georgia and, as demonstrated in the past year, we remain resilient to changing market conditions and are delivering against our strategic targets. I am confident that we are on the right track to sustain this progress and continue to create value for our shareholders through our focus on profitability, growth and robust balance sheet quality.

**VAKHTANG BUTSKHRIKIDZE**
CHIEF EXECUTIVE OFFICER

CASE STUDY

# INVESTING IN ENTREPREN




# LEVAN KILADZE, STATUS CLIENT

TBC Bank continues to set market standards in the affluent banking industry. The Bank is the most trusted retail bank in the country with unchallenged leadership in retail deposits. TBC was recognised as the Best Private Bank in Georgia (2014, 2015) by The Banker and the Private Wealth Management Magazine, part of the Financial Times family.

Our Status service, TBC Bank's affluent banking offering, is proud to work with some of the most prominent Georgian entrepreneurs. Levan Kiladze, founder and CEO of Lemondo, the most successful and fastest growing games and app development IT company in Georgia, is a long-time client and fan of TBC Bank's forward thinking e-banking offerings: "I especially appreciate TBC's internet and mobile banking apps that are beautifully simple, fast, and intuitive. This year, the Bank started its fully remote sales and transactions service via Status banking that allows me to take care of my everyday finances with the help of my Status banker, without visiting a branch. TBC Bank is also a favorite bank for our team - when our employees need a banking product, they know that TBC will deliver the best, in the most comfortable way."

Established in 2010, Lemondo broke many firsts – the company partners with Apple Store, Google Play, and Amazon and has already generated over 100 million downloads worldwide. Recently, Lemondo entered the console market by partnering with Sony Entertainment and Nintendo. According to Tamar Shonia, TBC Status personal banker, "our advanced banking technology allows us to place the highest emphasis on our client's needs, freeing up their time to do what they do best in their own fields of expertise."

See pages 30 – 37 for our Operating Review to read more about our Retail Banking services.

**TAMAR SHONIA**
TBC STATUS PERSONAL BANKE

# OPERATING ENVIRONMENT

## TBC BANK'S OPERATIONS ARE FOCUSED ON THE GEORGIAN BANKING MARKET WITH 99% OF ITS TOTAL ASSETS BASED IN GEORGIA.

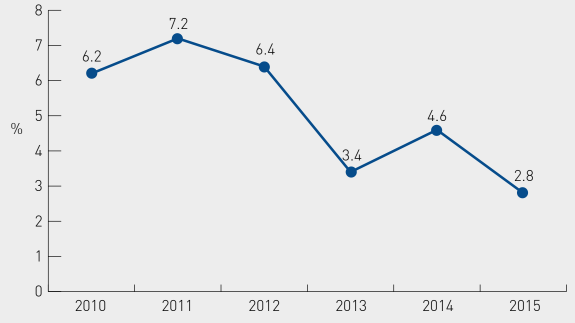
Georgia is situated at the strategically important crossroads where Europe meets Asia. The country has a long track record of resilient economic performance and a well-diversified economy. Despite a volatile regional environment, and the wider global challenges of 2015, the Georgian economy grew at a better-than-expected rate of 2.8% YoY, one of the highest in Central and Eastern Europe. Georgia also made important progress towards integration into the European Union and maintained its position as the world's number 24th easiest economy to do business in according to the World Bank's Doing Business Report 2016.

### Economic Environment

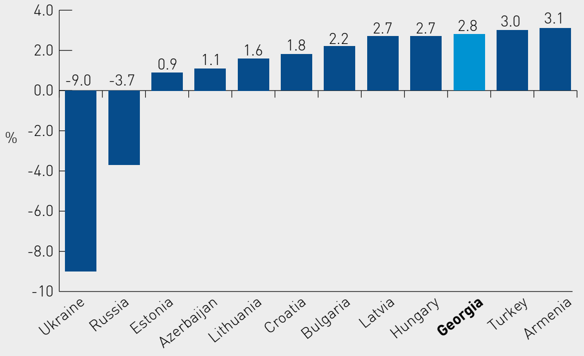
GDP growth in 2015 was supported by growing investment and public and private consumption. Net exports contributed negatively to growth due to the unfavourable regional environment. However, given the well diversified structure of GDP, Georgia went through the regional crises relatively unscathed and maintained one of the highest growth rates among the CEE countries.

Construction, transport and communications, and real estate contributed most to GDP growth in 2015, while manufacturing and the trade and repairs sectors were hit the hardest by the economic slowdown in the region and depreciation of the Georgian Lari (GEL). In 2015, the construction sector posted impressive growth (up by 15.2% YoY), real estate and renting activities increased by 6.9% YoY, transport and communications increased by 3.6% YoY, all in real terms. Conversely, growth was negative (-0.3%) in the trade and repairs sector, while the manufacturing sector contracted by 1.8% YoY in 2015.

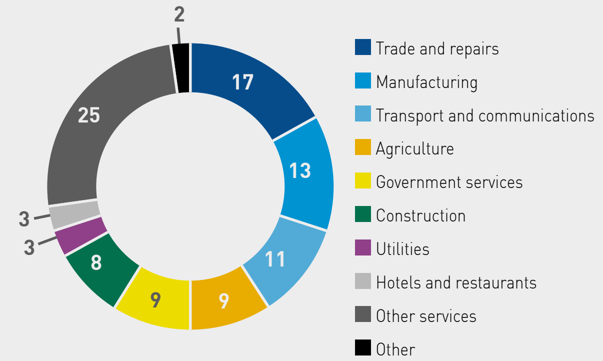
Annual Real GDP growth %
Source: Geostat



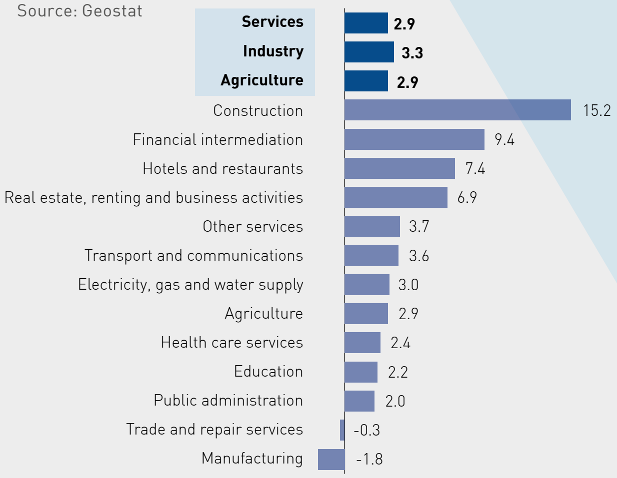

GDP growth in 2015 in CEE countries %
Source: Eurostat, statistical offices of respective countries, initial estimates



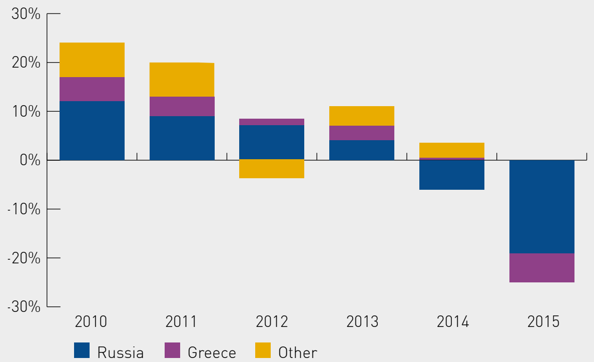
Structure of GDP (YE 2015) (%)
Source: Geostat



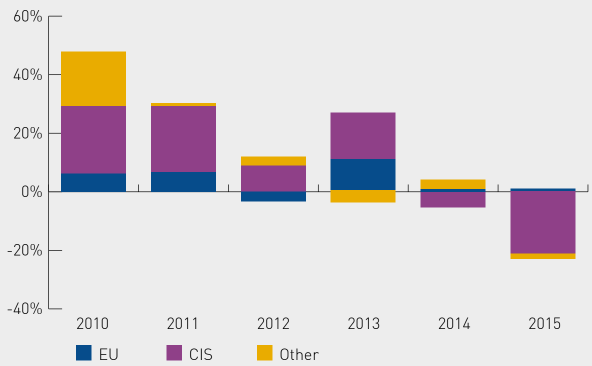

YoY real growth (YE 2015) (%)
Source: Geostat



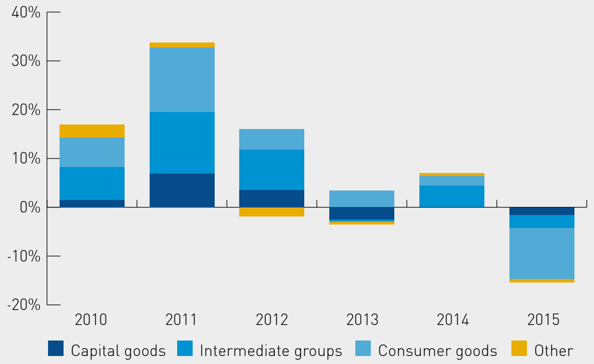

Contribution to different countries to growth of remittances
Source: NBG



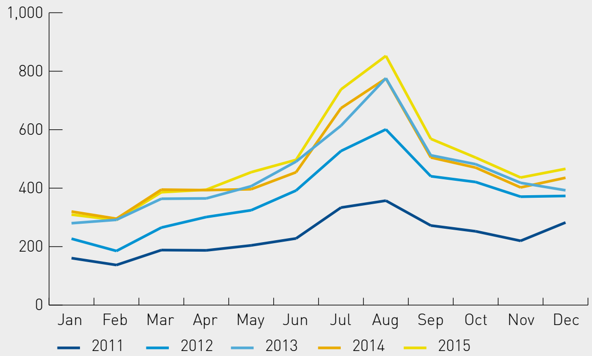

Contribution of different regions to growth of exports
Source: Geostat




Contribution of different product groups to growth of imports
Source: Geostat, TBC internal estimates




Number of incoming visitors (1,000 persons)
Source: GNTA




As a result of declining foreign currency inflows, the national currency underwent a necessary depreciation. In 2015, the Georgian Lari (GEL) depreciated by 29% YoY against the USD, while the nominal effective exchange rate (NEER)[1] of GEL depreciated by 4% YoY over the same period. The depreciation of the national currency against USD curbed the influence of external factors on the real sector of the economy and accelerated the import adjustment process, necessary to restore the Georgian current account balance.

In 2015, foreign inflows via export and remittances to Georgia dropped by approximately 1 billion USD mostly due to the declined exports and remittances inflows from CIS countries. Exports to the EU increased by 4% YoY, while exports to other countries declined by 7% over the same period.

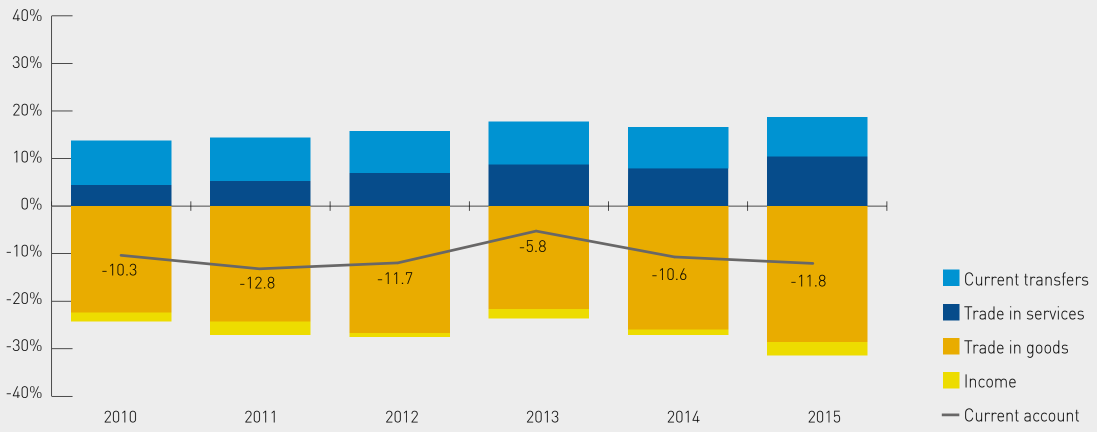
Remittances fell by 25% in 2015, with lower remittances from Russia playing a major role in the decline. Contraction in export and remittances inflows was fully offset by lower imports and a robust growth in tourism revenues. Import of goods[2] declined by 15.3% in 2015 or by 1.3 billion USD, mostly resulting from the decline in the consumer goods category (-22.3% YoY) while capital goods and intermediate goods fell at a lower rate, maintaining the healthy structure of imports.

As a result of the decline in imports, the trade balance improved by 663 million USD YoY in 2015 or by 11.6%.

1. NEER represents weighted average exchange rate of GEL against the currencies of trading partners of Georgia.
2. Excluding one-off imports of medicaments related to the Government's hepatitis C program, which was granted to Georgia for free.

# OPERATING ENVIRONMENT
## CONTINUED

Current account components as a % of GDP
Source: NBG




Tourism inflows continue to positively influence Georgia's current account deficit and remains one of the most stable sources of hard currency income into the country. The number of international visitors increased by 7% YoY in 2015 and tourism inflows reached 1.94 billion USD, up by 150 million USD compared to the previous year. The positive trend in tourism inflows has continued in 2016, in the first quarter of 2016 the number of incoming visitors increased by 15% YoY indicating another year of solid growth in tourism revenues for Georgia.

The CA deficit as a % of GDP stood at 11.8% in 2015, up by 1.2 PP compared to the previous year. Traditionally, deficit of trade in goods remains the biggest negative component of Georgia's CA balance. Positive contribution of trade in services balance is consistently increasing and, in 2015, trade in services balance accounted for 10.4% of GDP, up by 2.5 PP compared to the previous year.

The current account deficit was mostly covered by FDI inflows. Net FDI accounted for 8.7% of GDP in 2015 up from 8.1% in 2014. The rest of the CA deficit was financed by public and private borrowing as well as by the international reserves of the NBG.

By the end of 2015, the decline in imports had already fully offset the negative impact of falling exports and remittances and the pressure on the GEL exchange rate.

Fiscal and monetary policies remain well-calibrated and effective in the current economic environment. Responding to higher inflation expectations, the NBG tightened its monetary policy and increased its key rate gradually from 4% in the beginning of 2015 to 8% by the end of the year. As a result, inflation stood at 4.9% in December 2015, within the NBG's target of 5%. Consumer prices continued to moderate in 2016 and, as of March 2016, annual CPI inflation was recorded at 4.1%.

Budgetary spending remained disciplined and the fiscal deficit amounted to c. 3% of GDP. In 2015, deficit spending has been more equally distributed across the year, which helped to avoid additional pressure on the GEL by the end of the year. Public debt increased slightly due to the depreciation of the national currency but remains within a sustainable level at 42% of GDP as of 2015.

## Financial Sector

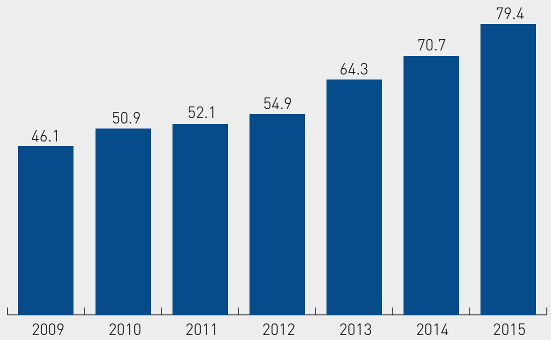
The financial sector, dominated by the banks, continues to grow under a prudent regulatory framework. In 2015 total assets of the banking sector increased by 22.1% and amounted to 25.2 billion USD or 79.4% of GDP.

In 2015 the total loan portfolio increased by 23.5% YoY and reached 50.4% of GDP, however in real terms (excl. FX effect) growth of the loan portfolio was 5.8%, loans in national currency increased by 11.7% while foreign currency denominated loans increased by 2% (excludes FX effect). The share of foreign currency denominated loans in the total loan portfolio increased by 3.7 PP YoY in 2015 from 60.8 to 64.6, excluding the effect of the national currency depreciation, dollar loans declined by 2.2pp to 58.7% reflecting the unwillingness of borrowers to take loans in foreign currency given the sizeable depreciation of the GEL. On the other hand, depreciation resulted in increased dollarisation of deposits.

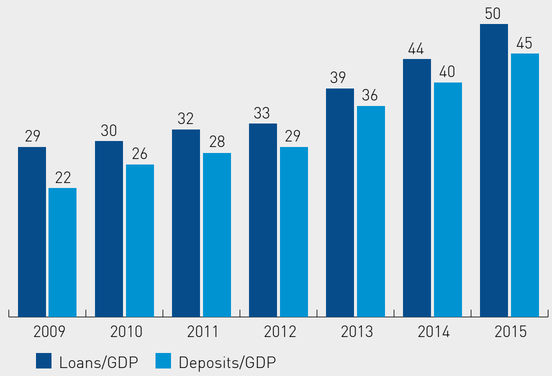
Excluding the FX effect, the dollarisation of deposits increased by 4.5pp from 60.2% to 64.6%. In the longer run, the financial sector continues to exhibit the trend of de-dollarisation of loans as well as deposits. Incidences of depreciation only result in a one-time increase in the dollarisation rate, while in the longer run overall macroeconomic stability, stable inflation as well as prudent macroeconomic policies work towards increasing confidence in the national currency and de-dollarisation of the financial sector.

The quality of the credit portfolio for the financial sector remains healthy, by the end of 2015 the share of non-performing loans in the total loan portfolio stood at 2.7% according to the IMF methodology, 0.3pp below the same indicator a year ago. As a result of the depreciation, NPL's increased slightly in the first half of 2015, however by the end of 2015 NPLs stabilised to pre-depreciation levels and currently there are no reasons to expect a further surge in non-performing loans.

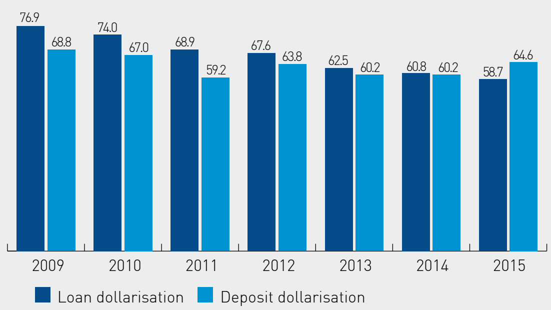
Banking sector assets to GDP (%)
Source: NBG



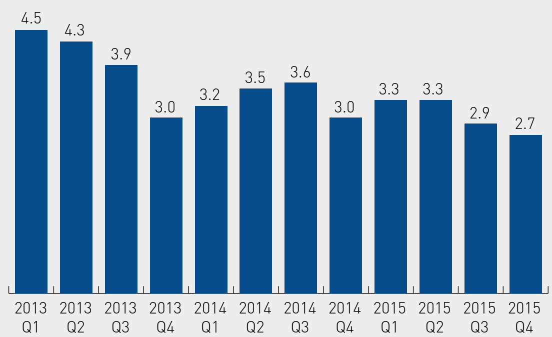

Loans and deposits to GDP (%)
Source: NBG




Dollarisation of loans and deposits (excludes fx effect) (%)
Source: NBG




Sector NPLs
Source: NBG



# OPERATING ENVIRONMENT
## CONTINUED

### Regional Context

The Georgian economy is well positioned to recover from the economic slowdown, due to free trade agreements with all of the major countries in the region which enable Georgia to maintain and further diversify its export portfolio.

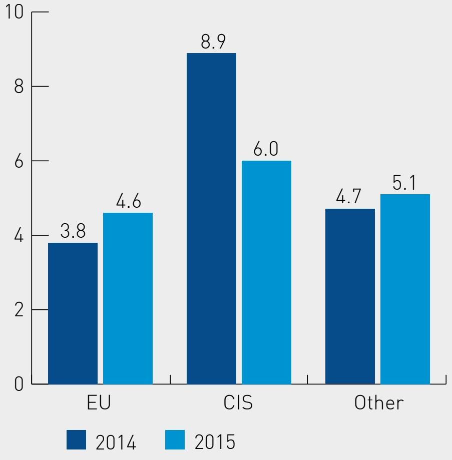
The free trade agreement with the EU (DCFTA), signed on June 2014, represents a significant step forward in this regard. This agreement removes all tariff and non-tariff barriers for goods produced in Georgia to access the largest single market in the world. In the summer of 2016 Georgia is set to receive visa free travel with Schengen countries, thus removing travel barriers which will further enhance Georgia's economic integration with EU countries and promote exports to the EU.

In addition, Georgia signed a free trade agreement with EFTA states and FTA negotiations  with china are underway with significant progress made to date. The dependence of Georgian exports on traditional markets in the CIS is gradually declining in favour of a more balanced geographical profile of exports that will further enhance the resilience of the Georgian economy toward any new global and regional shocks. Export dependence on the CIS market declined from 8.9% of GDP in 2014 to 6% of GDP in 2015, which reduces the sensitivity of the domestic economy to the developments in the CIS in the future.

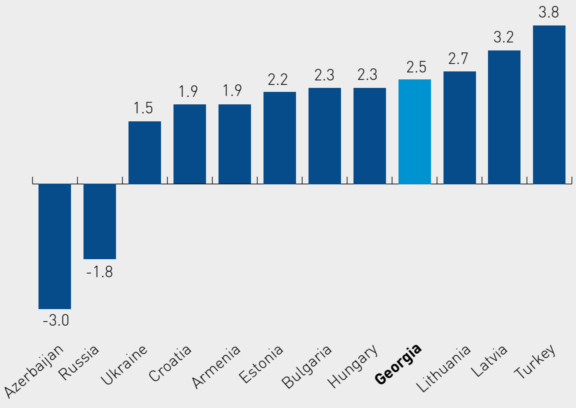
A generally favourable business environment remains the main factor supporting the long-term sustainable growth in the Georgian economy. The current government continues reforms aimed at improving the investment environment in the country. In 2016, the Georgian government announced amendments to the tax code, which will abolish reinvestment tax in the economy and abolish duty on imports of investment machinery. These changes are meant to increase investment in the economy and uplift economic activity over the  coming period. The new tax code is expected to enter into force in 2017.

According to consensus among international organisations, Georgian economic growth is expected to remain among the top performers in the CEE region. According to the IMF, the Georgian economy is expected to expand by 2.5% in 2016 and get back to the potential growth rate of 5-6% in 2017.

Exports by region as a % of GDP
Source: Geostat




GDP growth forecast for 2016 (%)
Source: IMF, WEO, April 2016 update



## Sector Developments

### Transport and Communications

One of the key competitive advantages of Georgia is its role as a transit hub for oil and gas produced in the Caspian Sea to reach Europe without going via Russia. Logistics accounted for around 10.4% of GDP and 3% of employment in 2014. Reforms and investment in infrastructure have improved the country's regional role in transporting oil and gas, as well as other commodities. Some of the major projects in this sector are reviewed below.

### Tbilisi-Baku-Kars Railway

Georgia's role as a regional hub for transport and communications will be further strengthened by the Tbilisi-Baku-Kars railway, which is announced to become operational by the end of 2016. The new railway will connect regional countries to the European market and is expected to increase passenger and cargo traffic through Georgia.

### BP Shah Deniz II

BP expects that the investment in the Shah Deniz II gas pipeline project will be USD 2 billion until 2018, and c. 20% of the investment will be spent via local contractors; in 2014-2015 about USD 700 million was already invested in Georgia.

### Anaklia Deep Sea Port

A deep-Sea Port will be constructed in Anaklia, which will further facilitate the transit and logistical potential of Georgia. The project is expected to start in 2016 and the first stage project investment will amount to c. USD 500-700 million in the coming four years.

### Energy

Power generation is one of the main high growth potential sectors of the Georgian economy.  It accounts for 3% of GDP and approximately 1% of employment, and is of high strategic importance to Georgia. The sector attracted high FDIs in 2013, 2014 and 2015- 244 million, 190 million and 89 million respectively (which was around 26%,11% and 7% of total FDIs) - as Georgia has the potential to supply hydropower to neighbouring countries. One of the priorities for the Government is to promote the development of Georgia's power generation capacity, which will enhance Georgia's energy self-sufficiency and the availability of affordable energy. Neskra HPP is a large scale project with total estimated investment of USD 1 billion, the project is financed by EBRD, ADB, Export-Import Bank of Korea in cooperation with the Georgian Partnership Fund and is planned to be completed by 2019. Once completed, Nenskra HPP is expected to fill the gap between the supply and demand of electricity in Georgia and reduce dependence on imported energy sources, especially during winter.

### Tourism

According to its strategy, the Georgian Government will actively support tourist infrastructure, new tourist product offerings, and an increase in service quality levels. Apart from leisure tourism, the government also aims to increase MICE tourism and expect around 8 million international arrivals by 2019, hence the need for new infrastructure projects.

As of 2015, Georgia had 8.7 beds per 1,000 visitors (down from 16.0 in 2010), far below the 42.6 average (2014) in Eastern European peers. The reason why Georgia is far behind its EE peer country's average is that growth of visitors far outpaced hospitality infrastructure growth. Since 2010 the number of beds in the hospitality sector increased by 59% to 51.4 thousand, while the number of visitors almost doubled to reach 5.9 million in 2015.Over the next five years, the construction of new international and local upscale hotels will add more than 4,000 hotel rooms in Tbilisi and Batumi. 68% of the planned hotel projects are international medium and upscale brand hotels. By 2020 international chains like Millennium, Intercontinental, Park Inn by Radisson, and Crowne Plaza are expected to launch operations in Georgia.

# BUSINESS MODEL

TBC Bank has a clear focus on the Georgian market and pure-play banking operations. By leveraging clearly differentiated strengths in strong and growing positions across all business segments, award-winning multichannel capabilities, leading customer experience, and a well-established brand we have defined a clear strategy to be the number one commercial bank in the country across all segments.

## MISSION

TO CREATE NEW OPPORTUNITIES FOR THE SUCCESS OF PEOPLE AND BUSINESSES

## VISION

TO BE THE LARGEST COMMERCIAL BANK IN GEORGIA

## BUSINESS MODEL

OUR BUSINESS MODEL IS FOCUSED ON CORE BANKING ACTIVITIES IN GEORGIA

TBC Bank primarily operates on the Georgian market and concentrates on pure commercial banking activities, investing in subsidiaries that support or further grow our core business. This business structure clearly differentiates us and enables us to remain focused on providing traditional financial services to our clients on the local market where we enjoy a leading presence.

In addition, TBC maintains one of the best funding structures among local banks and a straightforward and resilient balance sheet.

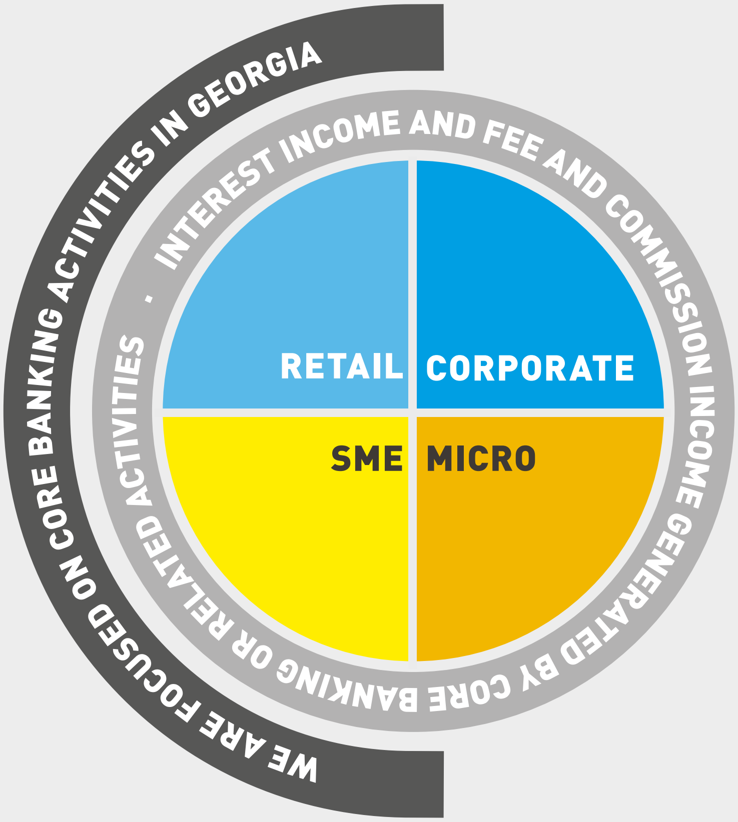
## SOURCES OF INCOME

As a pure-play bank, the main sources of income for TBC Bank are Interest Income and Fee and Commission Income generated by core banking or related activities. In both areas, we have delivered strong growth in profitability and expanded our products offerings for our customers.

## INVESTMENT CASE

## WE DIFFERENTIATE OURSELVES FROM COMPETITORS ACROSS VARIOUS CRITERIA

1. Leading positions in an attractive market
2. Strong track record of growth and profitability
3. Business Model focused on core banking activities in Georgia
4. Strong brand, superior customer experience and an award-winning franchise
5. The leading multichannel distribution platform
6. Resilient and high quality balance sheet
7. Experienced management team and high quality corporate governance




# TARGET CUSTOMERS

As one of the largest banks in Georgia, we provide financial services to over one million retail customers and businesses covering the entire market.

- The Retail segment provides high quality services to mass retail, high net worth individuals and affluent customers.
- The Micro segment provides loans to micro customers, which also includes loans to small farmers and other rural businesses.
- The SME segment provides financial services and support to small and medium-sized companies, which are considered the largest drivers of economic growth.
- The Corporate segment provides services and advice to large mature companies operating on the Georgian market. TBC Bank is considered one of the core corporate banks in the country.

Furthermore, we differentiate ourselves through one of the highest levels of customer experience, outstanding multichannel capabilities proven through a number of awards, a strong brand and a highly professional workforce.

# STRATEGY

TBC BANK'S OVERALL STRATEGY IS TO DELIVER STRONG, SUSTAINABLE GROWTH AND PROFITABILITY WITHOUT COMPROMISING ASSET QUALITY. IN 2015, WITHIN THE CONTEXT OF AN ECONOMIC SLOWDOWN, THE BANK PLACED AN EMPHASIS ON PROACTIVE PORTFOLIO MANAGEMENT, WHILE ACHIEVING ITS TARGETED PROFITABILITY AND COST CONTROL.

The Bank's strategy for the next years is laid out below. To sustain TBC's growth and profitability within its risk parameters, the Bank will expand market shares mostly in the attractive retail, SME and micro (MSME) segments, which are characterised by high margins and rapid growth.

TBC Bank will continue strengthening its competitive advantages of a strong brand, outstanding customer experience, and award-winning multichannel capabilities, while sustaining a strong focus on operational efficiency and cost management, as well as further developing the Bank's high-class risk management function.

### Continue Sustainable Growth in Each Market Segment

In 2015, the Bank significantly expanded its geographic coverage with the integration into TBC Bank of the branches of the former Bank Constanta in January 2015, which was rebranded under the TBC brand and included an upgraded suite of products and services. TBC Bank will continue delivering sustainable growth across all four segments. For this purpose, each segment has a separate strategy.

### Further Leverage TBC'S Award-Winning Multi channel Platform and Increase Digitalisation

TBC aims to further develop its multi channel distribution platform, significantly improve efficiency by influencing TBC's entire operations and end-to-end processes and move toward an agile project management methodology adoption aiming to transform the way TBC's information technology and business function.

TBC Bank's multichannel capabilities are one of its main distinguishing characteristics, as evidenced by the multiple awards TBC has received from Global Finance magazine, strong offloading results and a high percentage of transactions completed through remote channels. Strength in this area has also largely contributed to the Bank's achievement of becoming a leading retail bank in the country.

In addition, TBC Bank plans to further strengthen all of its remote banking channels, including ATM, POS, TBC Pay, and cash-in terminals that currently account for a significant percentage of TBC's total banking transactions. Further enhancement of the Bank's multichannel capabilities 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 customer experience, whilst reducing overall transactional costs.

### Focus on Continuous Operational Efficiency and Cost Management

In 2015, TBC Bank completed the back and front office merger of Bank Constanta and realised synergies through integrating main back office functions such as IT, operations and finance. Increased automation and productivity is another key efficiency factor. These further improvements follow the Bank's "Lean Banking" initiative and the multichannel project, implemented in 2012 that have both contributed to the advancements in operational efficiency. Furthermore, IT capabilities represent one of the core areas of focus for TBC Bank. The Bank's IT strategy is to develop IT capabilities and cutting edge technologies that support its robust, long-term development, including by developing automated services and operations to standardise TBC Bank's customer services and back office processes.

## Further Increase Leading Position in Customer Experience

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 in the market, with TBC maintaining a significant gap in NPS scores and other measures as compared to its competitors. 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.

We continued multichannel improvements during 2015, and increased the integration of the Oracle Siebel CRM with our internal front-end solutions in order to further improve customer experience, better manage customer relationships, shorten the decision-making process and design tailored services.

Additionally, the Bank will 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. To this end, TBC Bank worked with Peppers and Rogers group, a leading public relations consultant, to develop a roadmap for further improvements in customer experience

Finally, in order to develop aspirational targets and leverage cross-industry expertise and knowledge, we have already started comparing our customer experience with those of the best-in-class service providers in Georgia and abroad.

## Implement Strategic HR Management Initiatives

TBC Bank has launched a "Strategic HR Management" initiative to build a more effective organisational structure, design, culture and employee value proposition. In early 2016, the Bank hired Mercer, a leading consulting firm, to assist in the Strategic HR Management initiative and provide a detailed roadmap of the planned transformation.

## Continued focus on risk management capabilities enhancement

Having a strong risk management function in place has enabled TBC Bank to deliver strong and sustainable risk adjusted returns while remaining within the desired risk appetite. The risk management team proved its prudence and flexibility in 2015 throughout the currency depreciation and relative macroeconomic slowdown as demonstrated by robust risk results including moderate cost of risk expense.

The Bank continues to place strong emphasis on further enhancements of its risk management practice to enable it to represent a competitive advantage on the market. It invests continuously in people, further upgrading its policies and procedures, advancing its analytical and modeling capabilities and implementing software solutions for process automation and efficiency enhancements. All of this promotes resiliency and sustainability of TBC Bank's business model in which risk management is one of the key strategic enablers.

# KEY STRENGTHS

## TBC BANK IS A MARKET LEADER IN THE RETAIL, SME, MICRO AND LEASING SEGMENTS, AND THE SECOND LARGEST BANK IN THE CORPORATE SEGMENT.

The Bank is focused on the Georgian market with a small international footprint in Azerbaijan and Israel. TBC Bank Management has identified the following key strengths that will enable it to maintain and strengthen its position as one of the leading Georgian banks.

### Leading Positions in an Attractive Market

TBC Bank has the second largest asset base on the market amounting to GEL 6,935million, or 26.7% of the market, as at 31 December 2015, more than four times the assets of the next largest bank in Georgia (the two largest banks together hold 60.8% and 62.0% of all loans and deposits in Georgia, respectively, as at the same period). Additionally, TBC Bank was the largest retail bank in Georgia by value of deposits of individuals with a 34.3% market share, and was the second largest bank in Georgia in terms of loans to individuals and loans to legal entities. As of 31 December 2015, the Bank held 28.7% and 29.0% market share in the total banking loans and deposits, respectively, which translate into a total loans portfolio of GEL 4,639 million and the total deposits portfolio of GEL 4,178 million[1].

### Strong Track Record of Growth and Profitability

TBC Bank has shown another year of strong performance in 2015 even within the context of subdued economic growth.

Past three years, the Bank achieved a CAGR of the total loan portfolio of 22.3% and a CAGR of its total deposits of 18.9% while delivering a profit CAGR of 30.8% over the same period and maintaining a high ROAE of 20.1% as at 31 December 2015. TBC Bank also maintained strong margins, recording NIM of 7.8% in 2015. TBC's strong performance was further reinforced by continuous improvement in cost efficiency, which was reflected in the declining cost to income ratio of 43.9% by the end of the year, below the Bank's mid-term target level of 40%.

### Business Model Focused on Core Banking Activities in Georgia

TBC Bank primarily operates in the Georgian market and concentrates on pure commercial banking activities, investing in subsidiaries that support or further grow our core business. This business structure clearly differentiates and enables the Bank to build on its knowledge of and position in the Georgian market and to remain focused on providing traditional financial services to our clients in the local market. This enables TBC to maintain a resilient balance sheet and a stable, customer-focused source of funding.

### Strong Brand, Superior Customer Experience and an Award-winning Franchise

TBC Bank is one of the most well-known and trusted brands in Georgia driven by the consistently high level of customer service, strong reputation, longstanding relationships with customers, focus on social responsibility and targeted marketing campaigns. This perception is supported by a number of internal and external research that shows the Bank's outstanding performance on the market in terms of NPS scores and customer satisfaction indices achieved. TBC has received a number of prestigious awards, including being named as "Best Bank in Georgia" seven times by Global Finance magazine and The Banker and four times by EMEA Finance and Euromoney.

1. Volumes according to IFRS consolidated statements; market shares according to NBG.

Additionally, superior customer experience is one of the key differentiators for the Bank. TBC Bank conducts regular loyalty surveys measuring customer satisfaction score ("CSAT") and net promoters score ("NPS"). The most recent surveys re-confirmed that TBC Bank has the highest CSAT and NPS scores in the Georgian banking sector.

### The Leading Multi channel Distribution Platform

One of TBC Bank's main competitive advantages is our advanced multi channel distribution platform, that includes branches, internet banking, ATM network, POS/cash in terminals, call centre, and mobile banking. Our leadership in this area has been proven through the multiple awards TBC Bank has won over consecutive years for corporate and consumer internet banking in Georgia, Central & Eastern Europe and even globally; strong offloading results and a high percentage of transactions completed through remote channels. Since the introduction of its breakthrough internet and mobile banking, TBC Bank has received two global awards for its consumer internet banking from the Global Finance magazine in 2013 and seven regional awards for its consumer and corporate internet banking from 2012 to 2015. TBC Bank continues to implement new ways of delivering its products and services without unnecessary expense or branch network expansion, particularly through its effective utilisation of internet and mobile banking. The Bank's e-banking penetration ratio (calculated as the number of active users divided by the total number of active retail clients) was 33.2% for internet banking users and 17.1% for mobile banking users by the end of the year.

As part of the continuous improvement process of TBC Bank's branch network, we created a new strategic design concept in partnership with Allen International, a leading strategic branding and retail design firm. The innovative design reflects TBC Bank's welcoming, friendly and open approach to banking and allows the Bank to achieve another breakthrough in customer service, maximising both the efficiency and effectiveness of its branches. The first pilot branch was launched in December 2015, which was followed by the opening of several new branches in 2016.

### Resilient and High Quality Balance Sheet

Deposits are the main source of funding for the Bank, accounting for 73.1% of total funding as a percentage of total liabilities and 60.2% as a percentage of liabilities and capital as of 31 December 2015. As of the same date, the Bank's net loans to deposits and IFI funding ratio was 95%, of which retail deposits contributed 59.1% within total deposits.

TBC has a well-diversified loan portfolio split across its segments, with retail, corporate, SME and micro loans accounting for 43.5%, 32.3%, 13.5% and 10.6% of total gross loans, respectively. The Bank operates across all regions through its branch network and major economic and industry sectors in Georgia.

As a result of its prudent risk management policies, TBC maintains a high quality loan portfolio. Even after the recent depreciation of the Lari against the US Dollar, TBC's loan portfolio demonstrated resilience which was largely attributable to TBC's prudent underwriting and monitoring procedures. This demonstrates TBC's proactive approach towards potential client payment vulnerabilities. Furthermore, in line with the Bank's strategy to continuously improve risk management policies, a structural and functional review was undertaken with the support of a leading consultancy firm in this area. Consequently, TBC Bank introduced an updated methodology for identifying non-performing loans (NPLs), which stood at 4.8% as at 31 December 2015, compared to 3.1% for the same period in 2014. TBC Bank maintained one of the highest coverage ratios in the country and in the broader region at 87% for YE 2015, compared in 131% in 2014.

TBC has a strong capital base with a tier 1 capital adequacy ratio of 24.7% and a total capital adequacy ratio of 31.0% as at 31 December 2015 in accordance with BIS Guidelines. TBC Bank's capital ratios are also higher than the Basel II/III minimum requirements, as adopted by the NBG under a stricter local methodology, with a tier 1 capital adequacy ratio of 12.8% and a total regulatory capital adequacy ratio of 16.0% as at 31 December 2015.

### Experienced Management Team and High Quality Corporate Governance

TBC Bank has an experienced management team with a proven track record of leading the Bank's operations and significant expertise in the finance industry, with an average of ten (and some more than 20) years of banking practice and/or international professional experience at global banks. Vakhtang Butskhrikidze, CEO, has also been named "Best Businessman of the Year" by Georgian Times Magazine, "Best Banker 2011" by the GUAM Organization for Democracy and Economic Development and "CEO of the Year 2014 " by EMEA Finance Magazine. Due to the historical presence of our IFI shareholders, we have always been differentiated by strong corporate governance, which was further improved during Basel II/III implementation and the June 2014 IPO of the Bank on the London Stock Exchange (LSE), as well as the Bank's preparation for the Premium Listing segment of the LSE in the second half of 2016.

# DISTRIBUTION CHANNELS

TBC BANK HAS DEVELOPED A LEADING MULTI CHANNEL DISTRIBUTION PLATFORM THAT ALLOWS IT TO SERVICE ITS CUSTOMERS THROUGH A COMBINATION OF A PHYSICAL BRANCH NETWORK AND A VARIETY OF AWARD-WINNING 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, CASH-IN TERMINALS AND A CALL CENTRE).

Our distribution platform comprises 135 branches (including those of TBC Kredit in Azerbaijan), 358 ATMs and 8,800 POS terminals (8,490 of which have contactless payment capabilities), 2,395 cash-in terminals (TBC Pay), internet banking, call centre, and mobile banking. TBC Bank has continued to differentiate itself through customer-friendly and high quality branch design, providing superior customer experience to the Bank's customers. Following Bank Constanta's merger into TBC Bank, TBC rebranded all existing Bank Constanta branches under a TBC brand and upgraded the suite of products offered at those branches, which significantly increased the geographic scope of TBC's retail banking offerings. TBC Bank's branch Network Map is available on page 3.

TBC Bank continues to enhance its innovative multichannel capabilities, a clear competitive advantages for the Bank as proven by our multiple awards throughout past years. In 2015, TBC Bank received awards in several categories for the Best Consumer & Corporate Internet Bank in Georgia in Central & Eastern Europe from Global Finance magazine.

## Branch efficiency

We have been constantly working on optimising our branch network and increasing efficiency in branches through high quality service and customer-centric branch design. We maintain one of the best branch productivity indicators among peers in the market by standardising our services, monitoring customer relations and evaluating their quality, and making constant improvements to satisfy and retain our large client base.

In 2015, TBC launched a redesigned branch concept to further improve its customer experience offering. The new design, which reflects TBC's welcoming, user-friendly and transparent approach to banking, was developed in partnership with Allen International, a strategic design consultant focused on financial services.

The re-designed branches leverage TBC's strength in multichannel banking and feature the Bank's popular advance e-banking tools and technology. The design is intended to minimise physical and psychological barriers between TBC Bank 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.

## E-Banking

In order to further enhance customer experience, TBC's aims to transform the branch-based, traditional banking experience into a modern, automated, omni-channel, 24/7 banking service and offer a new wave of digital banking services in Georgia. Currently, TBC Bank has been leading the market in internet and mobile banking for several years. Our multichannel platform allows our customers to complete a majority of banking transactions from remote channels in the fastest and the most convenient way possible. TBC Bank's internet and mobile banking provide a wide range of advanced features that are in line with global trends, leading the Georgian market in banking innovation. All banking services are integrated into the multichannel platform, giving customers the 360 degree view of their accounts, with the functionality to manage their money easily anytime, from anywhere and with any device with a single log-in The Bank's multichannel platform is based on the following strategic pillars:

- Creating superior user experience through state-of-the-art, simple and intuitive designs that help to increase the value and comfort of TBC's e-banking services.
- Using Mobile First implementation model to cater to TBC's niche mobile-centric customer segment.
- Aiming to continually develop service offerings that generate solutions to TBC's customer needs. TBC was the first organisation in Georgia to introduce fully native iPhone, iPad and BlackBerry banking applications and person-to-person transfers through mobile and internet banking using client mobile numbers as identifiers instead of IBAN.
- Focusing on security and stability to preserve TBC's trustworthiness and reliability.
- Integrating the Bank's market-first advance CRM to customise and tailor digital offerings and services to customers. In 2015, TBC introduced a pre-approved loan feature in internet banking that allows certain customers to receive loans online in a matter of minutes.

Since 2013, TBC Bank has succeeded in migrating its existing customers and attracting new customers and transactions to internet banking. In 2015, 84% of the Bank's total transactions were conducted through remote channels. Additionally, TBC sold 15% of all pre-approved loans, 16% of all credit cards and limit increases and 39% of all deposits in internet banking.

The quality of the TBC's digital experience has also been reinforced by highly positive user feedback, such as the five-star ratings that TBC's iPhone & Android mobile banking applications maintain on App Store and Google Play. By the end of 2015, the number of active Internet Bank users[1] only reached 212,560 and the number of active Mobile Banking users reached 109,391, which is the largest digital banking customer base in Georgia.

In 2015, TBC also received its fourth consecutive Best Consumer and Corporate Digital Bank in Georgia award by Global Finance magazine. TBC's consumer digital banking was also recognised as having the Best SMS Banking 2015 in the Central & Eastern European (CEE) region as well as Best Integrated Corporate Banking Site in the CEE 2015. TBC was also shortlisted for "Omnichannel FS Provider of the Year" by FStech Awards.

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Number of active Internet Banking or Mobile Banking users | **228,788** | 161,548 | 130,923 |
| Number of active Mobile Banking users[2] | **109,391** | 62,435 | 26,979 |


## Other Channels

Apart from branches and digital channels, TBC bank operates one of the largest networks of ATMs, POS terminals, call centre and cash-in terminals (TBC Pay). TBC Pay Mini Branches (cash-in terminals) are located within TBC Bank branches, at shopping centres, retail chains and other locations throughout Georgia. Cash-in terminals allow clients to perform various transactions remotely, such as paying 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 Pay terminals help further increase retail penetration, as the Bank is able to serve clients at their preferred locations while offloading day-today transactions from traditional branches.

At the beginning of 2016, TBC introduced a new mobile payment service (mPOS) for Georgian merchants, which was primarily created for merchants lacking access to the relevant infrastructure, or sufficient revenue, to use traditional point of sale (POS) services. This new mobile payment service allows a greater number of merchants to accept digital payments, and is intended to improve the consumer's shopping experience, as paying with mPOS is faster than paying in cash and waiting for change. The consumer can simply tap their contactless card in front of a secure reader to make quick and low value purchases.

1. We changed the definition of active IB users in 2013. Currently, clients who have accessed internet banking at least once over the last three months are counted as active users, in line with the number used in our latest Annual Report

2. The number includes active Mobile Banking users, who may also visit Internet Banking

CASE STUDY

# INVESTING IN ENERGY

# LARSI HPP

The Georgian Energy sector is one of the most attractive investment opportunities in the country. With its water-rich natural resources, Georgia currently produces an average of approximately 10 TWh of energy per year, while potential production is estimated at an annual capacity of 15,000 MW. Both local and regional markets provide significant consumption and export opportunities for the electricity produced in the country. Construction of over 20 Hydro Power plants (HPP) is currently ongoing and more than 70 are in the development stage. According to the Ministry of Energy, approximately 80 HPP projects are available for further investment.

TBC Bank is a leading financial partner for Georgian HPP developers with a total exposure of GEL 218 million to the Energy sector by the end of 2015 . TBC offers its clients a full range of financial products, including advance trade and project financing opportunities, and market-leading supporting and value-added services, such as leasing, insurance, brokerage and research. TBC Bank is proud to work with one of the prominent players in the energy sector, PERI LLC, on several of its important projects. According to their long-term corporate banker, Irakli Diasamidze, "During the last 12 years, PERI LLC successfully implemented the construction of 5 different sized HPPs with total capacity of 36.4 MW. They are currently developing a vital 109 MW Dariali HPP, set to start operations in Q2 2016. Their total investment in the sector has reached USD 255 million, which is an outstanding achievement." One of the latest HPPs TBC Bank financed for Peri, is the Larsi Plant located in the scenic Kazbegi municipality, near the country's northern border. The Plant is one of the biggest HPPs constructed in the country during the past two decades and generated 68 million KWh of electricity in 2015.

See pages 30 –37 for our Operating Review to read more about our Corporate Banking services.

**IRAKLI DIASAMIDZE**
SENIOR CORPORATE BANKER

# OPERATING REVIEW

## MAIN ACHIEVEMENTS IN 2015

### Merger with Bank Constanta

In 2015, TBC Bank completed its full merger with the former Bank Constanta. As a result, TBC achieved significant synergies in cost savings, over-delivering on the announced target, expanded its presence to the rural regions of the country and started offering the full selection of its products and services through the newly rebranded TBC Bank Constanta branches.

### Breakthrough Branch Design Concept

In 2015, TBC Bank launched a redesigned branch concept, created in partnership with Allen International, a strategic design consultancy focused on financial services. With this, the Bank aims to achieve another breakthrough in its customer experience offering. The new design reflects TBC Bank's welcoming, user-friendly, and transparent approach to banking and leverages the Bank's strength in multichannel banking, cutting-edge e-banking tools and technology. The innovative design minimises physical and psychological barriers between the Bank and its customers, thus creating a unique, customer-centric layout. The new design aims to enhance the Bank's longstanding leadership in customer experience and satisfaction, as proven by internal and external research. For more information on customer experience, see page 24 of this Report.

### Managing Landmark Bonds Issuances from ADB and BSTDB

In 2015, TBC Bank and TBC Capital, the Bank's brokerage subsidiary, completed two separate local currency bond issuances by the Asian Development Bank (ADB) and the Black Sea Trade and Development Bank (BSTDB) for a total of GEL 148 million. The ADB bond issuance in the amount of GEL 100 million was the largest ever GEL-denominated transaction of its kind arranged on the Georgian market. In combination with the milestone bond issuance by the EBRD in 2014, where TBC Capital also acted as a co-arranger, these transactions carry special importance for the Georgian economy as they provide much needed GEL financing that helps hedge currency-induced risks and supports the country's long-term trend towards de-dollarisation.

### Customer Relationship Management

TBC Bank was one of the first banks in Georgia to develop advanced CRM capabilities. TBC is partnering with Oracle by implementing Siebel CRM solution, a market leader in the financial sector and the world's most complete CRM product. In 2015, the Bank completed a full integration of CRM capabilities in all of its business lines, including through remote banking channels enabling the Bank to better customise product offerings to its customers.

### Multichannel Results

TBC Bank has a globally recognised multichannel distribution platform that continued to successfully offload routine transactions from branches to e-channels, while minimising cost and unnecessary branch network expansion throughout 2015. By the end of 2015, the number of our active clients for internet and mobile banking reached c. 230,000 and 110,000, respectively – the highest number of active internet banking users in the country. The share of remote channel transactions in total number of transactions (possible to transfer to remote channels) reached 84%. Due to the effectiveness of our remote banking initiatives, we also maintained the most efficient and productive branch network in the country. As at YE 2015, the Bank's gross loan-per-branch stood at GEL 36 million – more than any other Georgian bank.

## RETAIL SEGMENT OVERVIEW

IN 2015, TBC BANK MAINTAINED ITS POSITION AS THE LARGEST BANK IN THE COUNTRY IN TERMS OF RETAIL DEPOSITS AND THE SECOND LARGEST BANK BY RETAIL LOANS, ACCOUNTING FOR 34.3% AND 31.6% OF THE MARKET, RESPECTIVELY, AS AT YE. THE RETAIL BUSINESS DELIVERED CAGR OF 28.4% AND 20.9% IN LOANS AND DEPOSITS, RESPECTIVELY, OVER THE LAST THREE YEARS.

The segment serves c. 1 million clients, of which c. 8,500 are affluent banking and c. 1,400 are private banking customers with a wide range of loan, account, card, deposit, insurance and operational products through the Bank's 128 branches and the refined multi channel platform.

TBC Bank is an established innovator in payment technologies. In 2013, TBC Bank introduced contactless card technology on all cards with Visa Paywave, which has been extremely popular among the Bank's customers. By the end of 2015, 72% of all transactions were contactless.

The retail loan book composition as of YE 2015 consists of consumer loans at 43.2%, mortgage loans at 44.8%, and gold pawn loans at 12.0%.

As at YE 2015, retail loans stood at GEL 2,020 million, up 28.5% YoY and retail deposits reached GEL 2,470 million, up 28.5% YoY. In 2015, retail loan yields and deposit rates stood at 14.9% and 4.2% respectively and the segment's cost of risk was 1.6% during the same period.

### Awards

TBC Bank was honoured to be recognised for its leadership in a number of key business lines, as well as for its overall performance as the best bank in Georgia 2015 by three major publications, including Global Finance and EMEA Finance magazines for the fourth consecutive year and by Euromoney for the second consecutive year. TBC was once again named as the Best Private Bank in Georgia 2015 by The Banker and Professional Wealth Management Magazine, an FT publication. This competition was extended to Georgia for the first time in 2014. TBC continued to achieve outstanding results for its internet banking, which was named as the best consumer and corporate internet bank in Georgia by Global Finance Magazine, also for the fourth consecutive year, and was once again recognised on the regional scale in two categories in Central and Eastern Europe. A comprehensive list of our awards is available on the IR website.

PWM The Banker GLOBAL PRIVATE BANKING AWARDS 2015 BEST PRIVATE BANK GEORGIA

emeafinance EUROPE BANKING AWARDS 2015

BEST BANK AWARD • 2016 GLOBAL FINANCE

BEST DIGITAL BANK AWARD • 2015 GLOBAL FINANCE

# OPERATING REVIEW
## CONTINUED

## CORPORATE SEGMENT OVERVIEW

TBC BANK BEGAN ITS OPERATIONS BY FOCUSING ON CORPORATE CLIENTS AND HAS HISTORICALLY HAD A STRONG CORPORATE BANKING PRESENCE BASED ON ITS WELL-DEVELOPED RELATIONSHIPS WITH MANY LEADING GEORGIAN BUSINESSES WHICH, WITH TBC'S FINANCIAL AND ADVISORY SUPPORT, HAVE GROWN WITH THE BANK OVER THE YEARS.

TBC provides tailored financial solutions across all key corporate business sectors, with a particularly strong footprint in the energy, trade and services, oil and gas, healthcare, and food and agriculture sectors. As at YE 2015, TBC Bank was the second largest bank in terms of legal entity loans and deposits in the Georgian banking sector, accounting for 26.2% and 23.4% respectively. The legal entities market share comprises all legal entity loans and deposits, including those in the Corporate, SME and Micro segments. The Corporate segment has delivered CAGR of 9.5% and 7.8% for corporate loans and deposits respectively over the past three years.

The segment serves approximately 1,700 customers and offers a wide range of products, including lending products, accounts and term deposits, corporate cards, foreign exchange operations, hedging, trade, factoring and project finance products, payroll projects, escrow services, cash collection, insurance packages (through GPI Holding, a partner insurance company), leasing (through TBC Leasing) and brokerage services (through its brokerage and corporate advisory arm, TBC Capital).

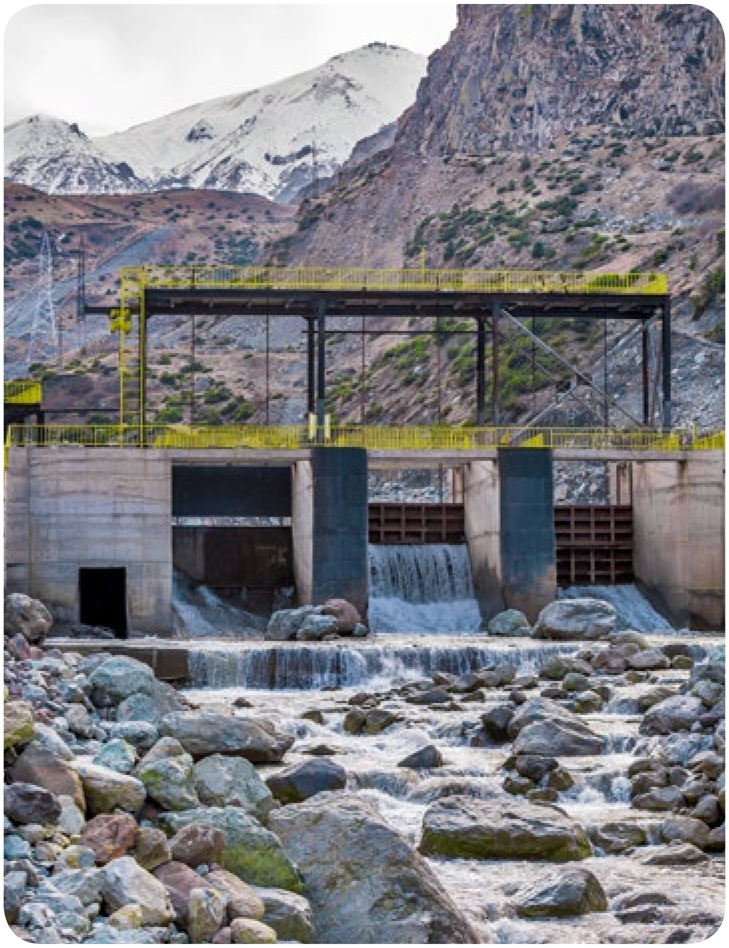
The broad product offering and client relationships provide an opportunity to deliver diverse loan/credit exposure to customers in services of 22%, energy - 14%, consumer goods and automobile trading - 11%, real estate - 10%, oil and gas - 7%, communication - 8%, food industry - 9% and other industries - 19%.

As at YE 2015, corporate loans stood at GEL 1,500 million, up 21.8% YoY and deposits reached GEL 1,001 million, up 19.1% YoY. In 2015, corporate loan yields and deposit rates stood at 9.6% and 3.3% respectively and the segment's cost of risk was 1.1% during the same period.

### Awards

TBC Bank's corporate banking was recognised as one of the best in Central and Eastern Europe and the CIS in 2014 (awarded in 2015). The Bank won two prestigious awards from EMEA Finance Magazine for achievements in project finance as the Best Transport and Infrastructure Deal for East West Highway and the Best Water Deal for the Dariali HPP.

Additionally, TBC maintained its title as the Best FX Provider in Georgia, awarded by the Global Finance Magazine, for the fourth consecutive year, having won the award annually from 2013-2016.

## SME SEGMENT OVERVIEW

### TBC IS ONE OF THE STRONGEST BANKS ON THE MARKET IN THE SME SEGMENT AND THE BANK BELIEVES IT HAS THE LARGEST LOAN BOOK ON THE GEORGIAN SME MARKET.

TBC Bank considers the SME business as core to the country's economic development. The Bank thus focuses on offering a diversified product range with outstanding multichannel capabilities, an efficient relationship model, and a high level of customer experience and offers. The SME segment has delivered strong growth in loans and deposits at CAGR of 28.6% and 30.5%, respectively, over the past three years. TBC classifies SME businesses as customers that are not included either in the corporate or micro segments. TBC's SME business has a strong presence in various industries, including the services, real estate, construction, food and consumer goods and automobile trading industries.

TBC Bank serves approximately 67,000 SME clients and offers a wide variety of loan products including a full range of deposit products, short-to medium-term loans to finance working capital seasonal needs, sales growth, acquisitions, construction and expansion of production, as well as for other purposes. As at YE 2015, SME loans increased to GEL 626 million, up 16.7% YoY, and SME deposits reached GEL 633 million, up 26.4% YoY. In 2015, SME loan yields and deposit rates stood at 11.6% and 1.6%, respectively, and the segment's cost of risk was 2.0% for the same period.

**Business Support Program**

The SME Business Support Programme offers seven solutions custom-tailored to client needs, including training, conferences, consultations, a special Online Business Platform, and multichannel banking (mobile, SMS and internet). Through the Business Support Programme TBC Bank is able to reach its SME clients at every possible channel and leverages these capabilities to provide diversified and targeted solutions for its clients. The Business Support Programme encompasses seven different types of non-financial services offered to the SME clients. Services currently available through the Business Support Programme include:

1. Free training sessions financed by ADB with more than 5,000 clients trained in three cities.
2. The first educational web portal in the region, SME Toolkit Georgia, or www.tbcbusiness.ge (financed by IFC and in partnership with IBM). The portal also includes the innovative TBC Academy feature, discussed below.
3. Upgraded Internet Bank for legal entities.
4. Completely new Mobile Bank for legal entities.
5. SMS Banking services for legal entities.
6. Conferences and Events.
7. Expert Consultations.

In 2015, TBC Bank launched another innovative component of the SME Toolkit – TBC Academy. This sub-platform serves as a virtual training centre with educational and interactive animated video publications. Academy is integrated with Facebook, which means that registered users can get scores, certificates, and medals and share them on their Facebook page.

TBC Bank continued to offer its SME clients other innovative value-added services through its educational platform www.tbcbusiness.ge – The SME Toolkit. This pioneering project has received significant recognition, including the Marketing Brilliance Award for the "Best Product Launch" in October 2014 which recognises the most innovative marketing and public relations achievements across different industries in Georgia.

The SME Toolkit or the www.tbcbusiness.ge portal has been steadily gaining its popularity since its launch and reached the following milestones by YE 2015:

- c.822 thousand visitors attracted to our www.tbcbusiness.ge website since launch
- 27% all visitors become returning visitors
- 396,983 views for the educational videos on our YouTube and MyVideo[1] channels

One of the most important components of the Programme are the business training sessions aimed at improving SMEs' business management skills and promoting communication among them through informal networking opportunities. These training sessions are exclusively for TBC Bank's SME clients and cover important topics such as cost-volume-profit (CVP) analysis, budgeting, tax Issues, social media marketing, and strategic management. Training has been delivered either in the capital, or in the other main cities of Georgia, with the number of participants reaching 5,000 legal entities by the end of 2015. The average customer satisfaction score is 9.5 out of 10 based on internal surveys.

SME Conferences are designed to provide a unique platform for client SMEs to receive comprehensive information regarding the general business environment, the most current business topics and relevant development opportunities in Georgia. Conferences are held in three main cities in the country with the total number of attendees in 2015 reaching 1,000.

1. MyVideo is the local alternative to YouTube. Our lectures are extremely popular on both channels.

CASE STUDY

# INVESTING IN TOURISM


# NO 12 BOUTIQUE HOTEL

No 12 Boutique Hotel in Tbilisi opened just five years ago and has already become one of the highest rated tourist destinations with an 8.7 rating and the sought-after "most booked" status on Booking.com.

The owners of the Boutique Hotel started this innovative idea as a way to invest their savings – and the promising tourism sector was the obvious choice. Their tireless attention to detail, exquisite old Tbilisi designs and the modern quality of service make the No 12 Boutique Hotel unforgettable and the business – extremely successful. With TBC Bank's support, the hotel has branched out into additional locations, including an Apart Hotel. Lida Vardania, the founder and co-owner of No 12 Boutique Hotel, credits TBC Bank for the opportunity to also implement their latest idea: "Our success is based on innovation – we took advantage of an opportunity to create a boutique hotel, which was unexplored territory on the Georgian hospitality market. Importantly, we have a partner that helps us finance our new ideas. Our new niche initiative is g.Vino, a wine bar. With TBC's support, we are excited to get g.Vino off the ground and offer our guests new ways to experience Georgian culture and history."

See pages 30 – 37 for our Operating Review to read more about the SME Banking services.

**TAMAR JAKELI,**
SME CREDIT EXPERT

# OPERATING REVIEW
## CONTINUED


### MICRO FINANCE

MICROFINANCE IS ANOTHER KEY AREA FOR TBC AS THE SEGMENT OFFERS HIGH MARGINS AND LARGE GROWTH POTENTIAL. THE FULL MERGER WITH BANK CONSTANTA AT THE BEGINNING OF 2015 PROVIDED AN OPPORTUNITY TO EXTEND THE BANK'S FULL PRODUCT OFFERING TO MICRO CLIENTS AND ENHANCE TBC'S COVERAGE TO THE MORE RURAL REGIONS OF THE COUNTRY.

TBC Bank Constanta is one of the market leaders in the microfinance segment and delivered the highest loan book growth of CAGR 50.1% over the past three years. TBC Bank serves over 479 thousand micro clients.

TBC's micro client base is primarily composed of farmers and individual entrepreneurs. The Bank offers a range of tailored credit products, deposit products and other services, such as money transfers. The micro segment also introduced several innovative products in 2015, including a tablet loan issue product where all mini loans (defined as less than GEL 6,000) are issued and disbursed on site using tablets and pre-printed nameless debit cards, without having to bring the client into a branch. If the loan is approved, the client receives the debit card with the approved amount. The whole process takes around 60 minutes from application to approval and disbursement.

As at YE 2015, micro loans increased to GEL 493 million, up 34.4% YoY, and micro deposits reached GEL 74 million, up 24% YoY. In 2015, micro loan yields and deposit rates stood at 23.3% and 3.3% respectively and the segment's cost of risk was 3.6% during the same period.

## SUBSIDIARIES

### TBC Leasing

TBC Bank offers leasing services in Georgia through its majority-owned subsidiary, TBC Leasing. These include finance leasing, leaseback, residual lease, and service leases. Leasing arrangements are primarily entered into with customers in the construction, medical, agriculture, transportation and service sectors.

TBC Leasing is the market leader with 72.7% market share of the Georgian leasing financial services market by YE 2015. TBC Leasing's diversified customer base provides significant cross-selling opportunities and growth potential.

### TBC Capital

During 2015, TBC Bank enhanced the function and scope of its brokerage subsidiary and rebranded the Company into TBC Capital. The Company now represents an advisory arm of TBC Bank offering corporate advisory, research and brokerage solutions in Georgia. TBC Capital is committed to playing an active role in the development of capital markets in Georgia. TBC Capital supports both institutional and strategic investors in exploring investment opportunities in Georgia while at the same time giving access to additional forms of financing to domestic companies. During 2014 and 2015, TBC Capital participated in the landmark bond issuances of EBRD and ADB – the first and the largest such issuances by any IFI in Georgia, respectively - as well as the most recent issuance by BSTDB.

TBC Capital was also strengthened by leading professionals in the field. The company appointed two new Managing Directors with significant international experience in asset management and international capital markets, trading and derivatives from Jefferies Asset Management in the UK and Silverhorn Investment Advisors, Lehman Brothers, Nomura, and JP Morgan in Hong Kong.

### International Operations

Although the vast majority of TBC's operations (representing 99% of our assets) are conducted in Georgia, TBC Bank also operates in Azerbaijan and Israel through its subsidiaries – TBC Kredit and TBC Invest.

TBC Kredit is a non-banking credit organisation focused on SME and retail customers, offering SME and retail loans, consumer loans and mortgages. TBC currently holds a 75% equity interest in TBC Kredit. With headquarters in Baku, TBC Kredit operates seven additional branches throughout Azerbaijan. TBC Kredit has extensive experience in dealing with MSME finance, consumer and mortgage loans. As of 31 December 2015, TBC Kredit had a total loan portfolio of USD 30 million. SME lending accounted for 55% of TBC Kredit's loan portfolio, while consumer and mortgage loans accounted for 30% and 15%, 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 and companies in Israel (Israeli businesses connected with Georgia and family offices) about TBC Bank's products and services, fees and interest rates.

### Other Subsidiaries

TBC Group comprises five more companies operating in related industries in order to support TBC's main activities:

- JSC United Financial Corporation and TBC Pay LLC process card payments and supply payment collection services to providers of self-service machines and POS, WAP and Windows terminals.
- JSC Real Estate Management Fund and Mali LLC, which manage property we have repossessed for future sale.
- Banking Systems Service Company (BSSC) LLC provides technical services and software support for electronic banking systems (such as POS and cash machines).

CASE STUDY

# INVESTING IN AGRICULTU


# BADAGI

Georgia is famous for its culinary wonders, and the traditional, specialty sweets made from grape juice and walnuts are especially popular.

Badagi is a Georgian micro business that started producing traditional Georgian gourmet sweets approximately 15 years ago with a staff of 3 people. As the leading bank in the micro segment, TBC supported Badagi to its current position of eight signature stores and 70 employees. Today, the company offers a wider selection of delectable fruit desserts and wines and partners with large retailers that carry their products.

Micro businesses often have to work around the seasonality of their sales and income. Through its acquisition (2011) and merger (2015) with the former Bank Constanta, the leading micro finance institution in Georgia, TBC has acquired extensive expertise in the micro segment. By the end of 2015, up to 40% of the Bank's micro portfolio is dedicated to agro financing. According to the Micro Credit Expert working with Badagi, Keti Ghirsiashvili, "by combining micro segment expertise with the full selection of TBC Bank's product offerings, we are able to provide well-tailored financing options to businesses like Badagi, allowing them to create success stories that inspire entrepreneurship and creativity."

See pages 30 – 37 for our Operating Review to read more about our Micro Banking services.

**KETI GHIRSIASHVILI**
MICRO CREDIT EXPERT

# PRINCIPAL RISKS

| Risk | Why we think this is important |
|---|---|
| **Risks relating to TBC's business** | |
| **TBC's business and financial performance has been and will continue to be affected by general economic conditions in Georgia and elsewhere, and any adverse developments in Georgia or global economic conditions could cause its earnings and profitability to decline.** | Because TBC operates primarily in, and sources nearly all of its revenue from, Georgia, its business, financial condition and results of operations are, and will continue to be, highly dependent on general economic conditions in Georgia. TBC is directly and indirectly subject to the inherent risks arising from general economic conditions in Georgia, other economies which impact the Georgian economy and the state of the global economic conditions both generally and as they specifically affect financial institutions.<br><br>Georgia faced the most recent economic slowdown in the end of 2014, stemming from regional conflicts and falling oil prices. Economic turmoil in Russia, Ukraine and other regional countries affected demand for Georgian exports and remittance inflows declined, resulting in a significant deterioration of the current account balance. Highly uncertain regional/global environment, as well as domestic risk factors, continue to represent a risk factor constraining healthy growth opportunities.<br><br>Lari depreciated against the US Dollar by more than 40% since November 2014. Although the Lari remained more stable against other regional currencies and the currencies of key Georgian trading partners, its depreciation against the US Dollar was particularly significant because the Georgian economy is highly dollarised. Although in recent years the dollarisation rate (defined as foreign currency deposits as a share of total deposits across the sector) had been declining, with foreign currency deposits accounting for approximately 60% of all deposits as at 31 December 2013 and 2014, following the recent regional crises and sharp depreciation of the Lari against the US Dollar, the dollarisation rate increased again to 70% as at 31 December 2015.<br><br>A further material depreciation of the Lari relative to the US Dollar or the Euro, changes in monetary policy, inflation, market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence, whether as a result of adverse conditions and development in Georgia or in the global economy, could each lead to a deterioration in the performance of Georgia's economy, which could, in turn, have a material effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the shares.<br><br>TBC Bank performs regular analysis of macroeconomic environment and runs stress tests based on various scenarios to proactively introduce mitigating actions stemming from potential adverse developments. |

| Risk | Why we think this is important |
| --- | --- |
| **Recent depreciation of the Lari against the US Dollar has had and may continue to have negative effects on TBC's asset quality and overall financial performance.** | A significant percentage of TBC's loans (and of loans in Georgia generally) are denominated in currencies other than Lari, particularly US Dollars. While the income of a number of Georgians are paid in US Dollars via remittances from abroad and some customers hedge their exposure to some extent through the maintenance of savings in US Dollars, customers may not be protected against significant fluctuations of the exchange rates of the Lari against the currency of the loan, such as the recent depreciation of the Lari against the US Dollar. For Lari-denominated loans, the significant depreciation to date as well as any further depreciation of the Lari against the US 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.<br><br>Further depreciation of the Lari could also potentially threaten TBC's plans for portfolio growth due to the shrinkage of client credit limits.<br><br>TBC takes steps to mitigate the risk of depreciation of the Lari against foreign currencies by, inter alia, strict management of open currency positions and by holding higher capital for foreign currency loans. Additional buffers for currency depreciation is applied to clients' during loan applications, as well as more conservative approach to lending to certain industries which tend to be more vulnerable to currency devaluations is adopted. |
| **TBC may not be able to maintain the quality of its loan portfolio.** | The quality of TBC's loan portfolio is affected by changes in the creditworthiness of its customers, their ability to repay their loans on time, TBC's ability to enforce its security interests on customers' collateral, should such customers fail to repay their loans, and whether the value of such collateral is sufficient to cover the full amounts of those loans, especially on the back of the recent depreciation of the Lari, which caused a general decline in asset values. In addition, the quality of TBC's loan portfolio may deteriorate due to other reasons, such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of TBC's customers, further depreciation of the Lari or the unavailability or limited availability of credit information concerning certain customers. Further, TBC's risk management procedures may not be sufficient to maintain the quality of its loan portfolio, particularly as it expands.<br><br>Sound NPL identification and management, adequate loan loss provisioning, solid NPL coverage ratio as well as comfortable capital against unexpected losses help mitigate further losses that a bank could suffer on its non-performing as well as performing portfolio. |
| **Any decline in TBC's net interest income or net interest margin could lead to a reduction in profitability.** | TBC derives the majority of its total income from net interest income. Consequently, TBC's results of operations are affected by fluctuations in its net interest margin, which is its net interest income divided by its average interest-earning assets. Factors that result in fluctuations in TBC's net interest margin include underlying interest rates, competition for loans and deposits, customer demand and costs of funding. These are in turn influenced by such factors as global and local economic conditions, the resources of TBC's competitors and business and consumer confidence. Moreover, interest rates and TBC's cost of funding are highly sensitive to many factors including monetary policies and domestic and international economic and political conditions, currency exchange rates, the dollarisation level in the banking sector (to the extent that fluctuations drive the increase in foreign currency loans and assets with lower interest rates) and the reserve policies of the National Bank of Georgia (the "NBG"). Any decrease in interest rates on TBC's loans to its customers, alone or in combination with increases in rates payable on deposits or other interest-bearing liabilities, or smaller decreases in such rates compared to the rates on loans, could have a material adverse effect on TBC's future net interest income, net interest margin and, accordingly, its future profitability.<br><br>High levels of current margins and continuous efforts in cost optimisation represent a safeguard against margin declines posing profitability concerns for the Bank. |

# PRINCIPAL RISKS
## CONTINUED

| Risk | Why we think this is important |
| --- | --- |
| **TBC's business and financial performance are linked to interest rate levels and volatility.** | Interest rate levels and volatility may have an adverse effect on TBC's results, profitability and returns in a variety of different ways across its lending and deposit products. Interest rates are driven by factors outside of TBC's control, including the Georgian government's fiscal policies and the NBG's monetary policy, as well as regional and global economic and political conditions. A higher interest rate environment could reduce demand for TBC's primary lending products, mortgages and credit cards, and other lending products generally, as individuals are less likely or less able to borrow when interest rates are high. Higher interest rates would also lead to higher interest costs for existing borrowers, which would affect their ability to repay their borrowings and may lead to an increased rate of default. |
| **TBC may not be successful in implementing its strategic plans.** | TBC is pursuing several strategic initiatives intended to further leverage on what it believes to be its competitive strengths. These plans include continued sustainable growth in each of its market segments; increasing digitalisation in its multi channel platform; developing further enhancements to its customer experience; improving operational and cost efficiency; implementing strategic HR initiatives amongst its employees; and creating an enhanced, adaptable risk management function. TBC's ability to implement these strategies is subject to a number of risks and challenges and there can be no assurance that any of these strategic initiatives will improve profitability to the extent that TBC desires or at all. Any of the foregoing may have a negative impact on TBC's ability to meet its future growth plans, as well as on its business, results of operations and/or prospects.<br><br>In response to the exposure of strategic risk, TBC bank undertakes comprehensive budgeting process that incorporates scenarios and action plans under different circumstances. |
| **TBC faces significant competition, which may increase in the future and have an adverse impact on its business.** | The Georgian banking sector is very competitive, and TBC is subject to competition from both domestic and foreign-owned banks. According to the NBG, as at 31 March 2016 there were [19] commercial banks operating in Georgia. TBC competes with a number of these banks, including Bank of Georgia, Liberty Bank, ProCredit Bank, Bank Republic and VTB Georgia.<br><br>Increased competition may have a negative impact on TBC's market share in deposits and loans to customers, as well as its ability to grow its deposit and loan portfolios in the future. Although the Directors believe that TBC is well-positioned to compete in the Georgian banking sector, TBC's market position may suffer if competitors deploy greater financial resources, have access to lower-cost funding (particularly subsidiaries of foreign banks) or are able to offer a broader suite of products than TBC. Increased competition may also have a negative impact on TBC's ability to sustain its net interest margin and fee and commission levels. Any of these events could have an adverse effect on TBC's business, financial condition, and results of operations and/or prospects.<br><br>Bank's strategic planning efforts are directed towards mitigating the above-mentioned risk factors. TBC monitors market developments and performs regular SWOT analysis to ensure that its competitive position is maintained and strengthened continuously. |
| **Collateral values may decline, which could adversely affect TBC's asset quality.** | The main forms of collateral taken by TBC in its lending to business entities are charges over real estate, equipment and inventory. The main form of collateral taken by TBC in its lending to individuals is a mortgage over residential property. Declining or unstable prices of collateral in Georgia may make it difficult for TBC to accurately value collateral held by it. The value of any collateral ultimately realised by TBC will depend on the value of that collateral TBC is able to realise upon foreclosure, which may be different from the current or estimated value. If the value of the collateral held by TBC declines significantly in the future, TBC could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans that are more than 90 days past due and on the amounts realised upon foreclosure. Further, changes to laws or regulations that make it more difficult to enforce or repossess collateral may impair the value of such collateral.<br><br>In order to mitigate the risk, TBC generally imposes conservative loan to value ratio of (not higher than 70% at the time the loan is advanced), although the ratio may be higher for clients with a very good risk profile. |

| Risk | Why we think this is important |
|---|---|
| **TBC's loan portfolio concentration in Georgia may subject it to risks of default by its largest borrowers and exposure to particular sectors of the Georgian economy.** | Exposures to largest borrowers or cyclical sectors magnify credit risk bank is exposed to. In order to mitigate the risk, TBC Bank imposes limits on both name and sector concentrations and maintains them at acceptable level. This way, sensitivity to downturns in the Georgian economy deterioration of loan quality of largest borrowers is reduced and stands at rather comfortable levels compared to peer Banks. |
| **TBC's guidelines and policies for risk management, systems and processes may not be effective in protecting it against all the risks faced by its business and any failure to manage properly the risks which it faces could cause harm to TBC and its business prospects.** | Although TBC invests substantial time and effort in the development, implementation and monitoring of its risk management strategies and techniques, it may nevertheless be vulnerable to unanticipated risks. TBC employs various tools and metrics for managing risk, most of which 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 in periods in which there is a rapid expansion of TBC's loan portfolio.<br><br>Many businesses in Georgia have limited experience operating in competitive market conditions as compared to businesses in developed countries. Accordingly, the financial performance of Georgian businesses is generally more volatile, and the credit quality of Georgian businesses on average is less predictable, than that of similar companies doing business in more mature markets and economies. Some of TBC's corporate customers may not have extensive credit histories, and their accounts may not be audited by a reputable external auditor resulting in less accurate estimations of future financial conditions.<br><br>Furthermore, lending to SME, micro and retail customers may carry with it greater risks than expected. SME and micro customers typically have less formalised financial statements than large companies and there is often less credit history available for such clients. The financial condition of some business borrowers and private individuals transacting business with TBC is difficult to assess and predict, as some of these borrowers have no or very limited credit history. In addition, the retail and micro lending sector is more susceptible to fraud than TBC's business lending segments.<br><br>In order to mitigate the risk, TBC bank performs comprehensive transaction-level analysis for loan sanctioning incorporating four eyes principle, performs active portfolio monitoring and invests in continuous enhancement of its risk management systems and processes. |
| **Liquidity risk is inherent in TBC's operations.** | While the TBC PLC Directors believe TBC currently has sufficient liquidity to meet its obligations, liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an overreliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as, for example, the global financial crisis that commenced in 2007. Since that time credit markets worldwide have experienced, and may continue to experience, a reduction in liquidity and term-funding as a result of global economic and financial factors. The availability of credit to companies 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, central bank or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for companies operating in any of these markets.<br><br>In order to mitigate the risk, TBC Bank holds solid liquidity position. Bank performs outflow scenario analysis for both normal and stress circumstances to make sure that they can be met by bank's liquid assets and cash inflows. Bank as well maintains diversified funding structure to manage funding liquidity risk. The Directors believe that TBC has adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse effect on TBC's business, financial condition, and results of operations and/or prospects. |

# PRINCIPAL RISKS
## CONTINUED

| Risk | Why we think this is important |
|---|---|
| **TBC's operations and strategic plans could be impaired by a failure of its information systems.** | TBC relies heavily on information systems to conduct its business. TBC's information technology systems and the ability of those systems to keep pace with the expansion of TBC's business operations are crucial for TBC to meet its strategic objectives of digitalisation, which entails further development of its multi channel distribution platform, a continued shift towards more universal digitalised channels and an agile project management system, and is heavily influenced by the proper functioning and development of information technology systems. TBC's award-winning multi channel distribution platform, which the Directors believe is one of TBC's distinguishing characteristics in the market, depends heavily on information systems, particularly its remote access channels such as internet banking and mobile banking. This platform represents a significant investment by TBC and is key to TBC's strategies of optimising costs and strengthening its brand name in the market. TBC is increasingly reliant on remote distribution channels, and in 2015, 91% of TBC's non-cash transactions were conducted through remote channels (2014: 90%). Any significant or sustained disruption to TBC's information technology systems that impacts these remote distribution channels may affect TBC's reputation with banking customers, which could damage TBC's brand and position in the Georgian banking market.<br><br>TBC's banking operations in Georgia use the local Georgian core banking system, heavily complemented by in-house developed solutions. All of TBC's information systems are centralised, focused on customer needs and highly customised to TBC's business requirements. |
| **TBC is subject to operational risk inherent to its business activities.** | Like many other companies, TBC is exposed to operational risk resulting from inadequacy or failure of internal processes or systems or from external events. This includes the risk of loss due to employees' lack of knowledge or wilful violation of laws, rules and regulations or other misconduct. Misconduct by employees happens in the financial services industry and 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. Misconduct by employees, including violation of TBC's own internal risk management policies, could also include binding TBC to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. Furthermore, any failure or interruption in, or breach of security of, TBC's information technology systems could result in failures or interruptions in TBC's risk management, deposit servicing or loan origination systems or errors in its accounting books and records.<br><br>TBC maintains a system of controls, developed with external consultants and based on Basel II/III requirements, that is designed to monitor and control operational risk, and Management regularly reviews and updates its operational risk processes and procedures. TBC has taken appropriate measures to prevent recurrence of common types of fraud. Bank has back-up systems in place, including central databases, core files and registry settings and central data storages. |
| **TBC is subject to financial covenants in its debt agreements, the breach of which may cause TBC to be in default under those agreements.** | Most loans entered into between TBC, EBRD, FMO and IFC (together, "IFI Investors") are subject to the financial covenants set forth in the Common Terms Agreement and TBC is also party to other loan agreements that also contain financial covenants. The financial covenants in the Common Terms Agreement require TBC, 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 and other ratios governing overdue and non-performing loans. Whilst TBC has otherwise remained in compliance with all applicable financial covenants in the Common Terms Agreement and its other loan agreements, a failure by TBC 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 which could, in turn, materially adversely affect TBC's business, financial condition, results of operations and/or prospects.<br><br>TBC has in place comprehensive system of covenant compliance reporting which is monitored by both senior management and Supervisory Board. |

| Risk | Why we think this is important |
|---|---|
| **Capital adequacy and regulatory ratios may constrain TBC's profitability and/or growth.** | TBC is required by the NBG, and the terms of various of its funding and other arrangements, to comply with certain capital adequacy ratios and other ratios. TBC's capital adequacy levels could be affected by a number of factors, including:<br>• an increase of TBC's risk-weighted assets;<br>• TBC's ability to raise capital;<br>• losses resulting from a deterioration in TBC's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;<br>• a decline in the values of TBC's securities portfolio;<br>• changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and<br>• increases in minimum capital adequacy ratios imposed by the NBG.<br><br>Although the Directors believe that TBC currently has adequate capital, TBC may need to raise additional capital in the future. TBC's ability to raise capital may be limited by numerous factors, including general economic and financial conditions, the availability of funding in the capital markets, investor confidence, sentiment towards the Georgian economy and the credit rating and financial condition, performance and/or prospects of TBC. There can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner. In addition, NBG has the right to impose a capital buffer on banks. Should the NBG impose additional capital buffers or other requirements, there is no assurance that TBC would be able to maintain the same level of return on equity.<br><br>In order to be able to meet unexpected losses TBC has comfortable level of capital adequacy. Additionally, bank performs forward-looking capital management that incorporates both current and planned risk profile as well as planned growth strategy. TBC maintains solid track record of performance and risk management in order to ease its access to capital. |
| **TBC's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are difficult to predict.** | TBC's banking operations in Georgia are required to comply with Georgian banking regulations. In addition to mandatory capital adequacy ratios, the NBG sets lending limits and other economic ratios for banks in Georgia. Under Georgian banking regulations, TBC Bank is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. In addition to its banking operations, TBC also provides other regulated financial services and offers financing products, including leasing products and brokerage services, which are subject to governmental supervision. Furthermore, if regulations change or if TBC expands its businesses, TBC may become subject to additional rules and regulations at a national, international or supranational level, which may impact TBC's operations.<br><br>On 3 September 2015, a 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 Financial Supervisory Agency ("FSA"). The amendments were criticised, including by Georgian commercial banks, and they were also claimed to be unconstitutional and violating the EU Association Agreement. The parliament of Georgia overturned the Presidential veto on the bill, but on 12 October 2015 the Constitutional Court of Georgia accepted the claim on constitutionality of the bill and suspended its applicability. While the Constitutional Court is hearing the case, the relevant laws remain in force as they were before the introduction of the Financial Supervisory Agency and the NBG remains responsible for supervision and monitoring of the financial sector. The regulatory regime of the banking sector may undergo various changes if the Constitutional Court decides that the amendments comply with the Constitution of Georgia. Any such changes may have a disruptive effect on the effectiveness of current regulations, which could have an adverse effect on TBC's business, financial condition, results of operations and/or prospects.<br><br>TBC actively monitors regulatory developments in order to avoid any potential incompliance. |

# PRINCIPAL RISKS
## CONTINUED

| Risk | Why we think this is important |
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| **Breaches of the terms of TBC's banking licences may inhibit or prevent TBC's ability to conduct its banking operations.** | All banking operations and some ancillary financial services in Georgia require licences from or registration with the NBG (or in the case of TBC Kredit, TBC Bank's subsidiary in Azerbaijan, the Central Bank of Azerbaijan). Although TBC's entities have such licences, there is no assurance that TBC's entities will be able to maintain such licences or obtain new licences if necessary in the future. Licensed entities 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 licences.<br><br>TBC actively manages its compliance risk and maintains constructive relations with regulator which is based on healthy dialogue principle. Bank strives to run full compliance policy to avoid any potential breaches of regulatory requirements. |
| **TBC could be negatively affected by a deterioration in the soundness or a perceived deterioration in the soundness of other financial institutions and counterparties.** | Given the high level of interdependence between financial institutions, TBC is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other financial institutions and intermediaries, as was the case after the bankruptcy of Lehman Brothers in 2008, given the credit, trading, clearing and other relationships and interactions. Even the perceived lack of creditworthiness of, or questions about, a counterparty could lead to market-wide liquidity problems and losses or defaults by TBC or by other institutions. This risk is sometimes referred to as "systemic risk" or "contagion". Systemic risk could have a material adverse effect on TBC's ability to raise new funding and on its business, financial condition, results of operations, liquidity and/or prospects.<br><br>A default by, or even concerns about the creditworthiness of, one or more financial services institutions could therefore lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions and could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.<br><br>In order to mitigate the risk, TBC actively manages its reputational risk. 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. 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 on the market. Hence the maintenance of a strong reputation is considered to be a goal of highest priority and importance and reputation risk awareness and management is embedded throughout the Bank including all business units and responsibility levels. |
| **TBC's measures to prevent money laundering may not be effective in all material respects.** | TBC is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit TBC and its employees from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules can put a significant financial burden on banks and other financial institutions and requires significant technical capabilities. TBC may not be able to predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted.<br><br>Directors believe that TBC's current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations. 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. Improvements in AML management are undergone continuously. For instance, TBC Bank has in recent years introduced new software, updated its internal processes, regulations and staff training relating to anti-money laundering compliance intended to prevent the recurrence of such reporting violations in the future. |

| Risk | Why we think this is important |
|---|---|
| **TBC's success depends on its ability to recruit and retain key personnel.** | To meet business challenges and retain the effectiveness of its operations, TBC must continue to recruit and retain appropriately skilled personnel. TBC's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to TBC's business. This may require TBC to increase salaries and other employee benefits, which would increase TBC's staff costs and expenses and decrease profitability.<br><br>Directors believe that TBC is one of the most attractive employers in the market based on high employee satisfaction and engagement results. TBC's current senior management team includes a number of persons that the Directors believe contribute significant experience and expertise in banking and ancillary financial services in Georgia, and TBC relies on these persons for the implementation of its strategy and the operation of its day-to-day activities. |
| **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 Georgia, with policy specifications and insured limits, which the Directors believe are adequate. Risks that Group entities are insured against generally include employee dishonesty, electronic crime, natural disasters, theft, vandalism and third-party liability. TBC also maintains bankers' blanket bond and Directors' and officers' 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. Furthermore, the scope of insurance policies maintained by and available to TBC may vary from that of insurance policies typically maintained by financial institutions in more developed economies. Any uninsured loss or a loss in excess of insured limits could adversely affect TBC's existing operations, which could, in turn, have a material adverse effect on TBC's business, financial condition, and results of operations and/or prospects.<br><br>In order to mitigate the risk, insurance policies are reviewed regularly and updated when required so. |
| **TBC and Georgia may not be able to maintain their credit ratings.** | There can be no assurance that TBC Bank or Georgia 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.<br><br>In order to mitigate the risk, TBC bank places significant importance on operating with standards that do not compromise its current rating but on contrary advances its practices towards higher grade of credit rating. Various stakeholder perspectives are incorporated into benchmarking exercises throughout forming of Bank's strategic and risk targets. |
| **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. Any circumstance that causes real or perceived damage to the 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 the TBC brand could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. However, the Directors believe that TBC's brand provides it with a key competitive advantage and continuously invests in maintenance of its strong reputation. |

# PRINCIPAL RISKS
## CONTINUED

| Risk | Why we think this is important |
|---|---|
| **Changes in TBC's accounting policies or in accounting standards could materially affect how it reports its financial condition and results of operations.** | From time to time, the International Accounting Standards Board (the "IASB") and/or the European Union change the IFRS that govern the preparation of TBC's financial statements. These changes can be difficult to predict and could materially affect how TBC records and reports its financial condition and results of operations. In some cases, TBC could be required to apply a new or revised standard retrospectively, resulting in restating prior period financial statements. For example, changes to IFRS 9, Financial Instruments: Recognition and Measurement are expected to impact TBC and are expected to have a material effect on TBC's financial statements, but this effect has not yet been quantified as revisions to the standard are still being proposed and no mandatory effective date has been set. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of TBC's financial statements, which TBC may adopt prior to the date on which such changes become mandatory if determined to be appropriate, or which TBC may be required to adopt. Any such change in TBC's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.<br><br>TBC Bank tries to conduct quantitative impact study of new standards at early stage in order to ensure full compliance at the time of their enforcement. All major changes are communicated with the market in details with adequate reasoning to ensure full transparency and delivery of clear communication of future expectations. |
| **Risks Relating to Georgia** | |
| **Emerging markets such as Georgia are generally subject to greater risks than more developed markets.** | Investing in securities involving emerging markets, such as Georgia, involves a higher degree of risk than investments in securities of issuers whose businesses are in more developed markets. These higher risks include, but are not limited to, higher volatility, limited liquidity, a narrow export base, current account and budget deficits, currency volatility and changes in the political, economic, social, legal and regulatory environment. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. |

| Risk | Why we think this is important |
| --- | --- |
| **Disruptions in Georgia's neighbouring markets have had, and may continue to have, a material adverse effect on emerging markets and on Georgia.** | The economy of Georgia is dependent on the economies of other countries within the region. Any economic disruptions or crises in Georgia's neighbouring markets, such as the recent conflict between Russia and Ukraine resulting in the deterioration of these countries' economies, may have a material adverse effect on Georgia's economy. Any changes in the ability of Georgian manufacturers to access world export markets or any significant deterioration in relations between Azerbaijan and Armenia may have a negative effect on the economic stability of Georgia, which, in turn, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.<br><br>Although Georgia is not an oil producing country, the country historically received large foreign currency inflows from its oil producing neighbouring countries as Russia, Azerbaijan and Kazakhstan, mainly through money transfers, exports, tourism and foreign direct investment. Further declines in oil prices that weaken oil driven economies in the region could have a material adverse effect on Georgia and consequently on TBC's business, financial condition, results of operations and/or prospects. |
| **Regional tensions could have a material adverse effect on the Georgian economy.** | Since the restoration of its independence in 1991, Georgia has had ongoing disputes in the Abkhazia and the Tskhinvali Region/South Ossetia regions, and with Russia. These disputes have led to sporadic violence and breaches of peace-keeping operations. Russia began imposing economic sanctions on Georgia beginning in early 2006, and these tensions escalated during the August 2008 conflict in the Tskhinvali Region/South Ossetia region between Georgian troops and local militias and Russian forces that crossed the international border. Georgia's economy was negatively affected by this conflict. Since the conflict in 2008, Russia has had no diplomatic relations with Georgia and tensions between the countries remain.<br><br>Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy. Tensions have also recently increased between Russia and Turkey, both of which share a border with Georgia. This significantly damaged Russo-Turkish relations and resulted in the imposition by Russia of economic sanctions on Turkey, further raising tensions in the region.<br><br>Any worsening of relations between Ukraine and Russia or between Russia and Turkey, any future deterioration or worsening of Georgia's relationship with Russia, including as a result of major changes in Georgia's relations with Western governments and institutions (particularly regarding national security), changes in Georgia's importance to Western energy supplies, changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, may have a negative effect on the political or economic stability of Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the shares. |

# PRINCIPAL RISKS
## CONTINUED

| Risk | Why we think this is important |
|---|---|
| **The risk of political instability in Georgia could have a material adverse effect on TBC's business.** | Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Although the current government under Prime Minister Giorgi Kvirikashvili is generally seen to be business and investor friendly and to date has remained committed in principle to major economic and fiscal policies designed to liberalise the Georgian economy, various legislative initiatives discussed in the Georgian parliament have been subject to criticism by the business community. Government initiatives intended to promote a free market economy and freedom of the private sector under effective and transparent government include a recently established competition agency, the development of arbitration and a public-private partnership in the economy in order to increase the role of the private sector and effective management of the resources of the public sector. No assurance can be given that the Government plans will be implemented as announced. Furthermore, implementation of Government strategy may result in various changes in the regulatory environment of TBC, which may have negative effect on TBC's business, financial condition and/or prospects.<br><br>There can be no assurance that the Government will be able to maintain political and civil stability or that reform and economic growth will not be hindered as a result of any such events. Any of the events referred to above could have negative effects on the economy in Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the shares. |
| **Weaknesses relating to the Georgian legal system may create an uncertain environment for investment and business activity in Georgia.** | Georgia is continuously developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Georgian civil, criminal, tax, administrative and commercial laws are frequently amended as per the legislative standards of continental Europe. Moreover, as a result of the conclusion of the EU-Georgia Deep and Comprehensive Free Trade Agreement ("DCFTA"), Georgia's laws and enforcement standards will have to be fully harmonised with the EU standards. As a result of changes in recent years, Georgian laws became especially investor-friendly, particularly in terms of starting a business, registering property, paying taxes and enforcing contracts. Georgia is highly ranked with regards to factors such as absence of corruption in the public sector and judiciary, order and security, regulatory enforcement and civil justice. Despite these favourable features of the Georgian judicial system, judges and courts in Georgia are generally less experienced in the area of business and corporate law than judges and courts in certain other countries, particularly the United States and EU countries. Georgia's future attempts on harmonisation towards the EU standards may be unsuccessful and may create further uncertainties in the Georgian judicial system, which could have a negative effect on overall economic conditions in Georgia and in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as on the trading price of the Shares. |
| **The uncertainties of the Georgian tax system could have a material adverse effect of TBC's business.** | In Georgia, tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for TBC and its business generally.<br><br>In addition, Georgia faces difficulties in ensuring the impartiality of its court system with respect to tax claims, especially when large amounts are being contested by tax payers. The inability of the Georgian court system to constrain properly the tax authorities in connection with certain tax matters has been notorious over the past several years, especially prior to the change in the Government in 2012. Although certain steps are being taken to remedy the current situation, there can be no assurance that such practices will not continue in the future, which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the shares. |


**BREAKTHROUGH BRANCH DESIGN CONCEPT**
In 2015, TBC Bank launched a redesigned branch concept, created in partnership with Allen International, a strategic design consultancy focused on financial services. The new design reflects TBC Bank's welcoming, user-friendly, and transparent approach to banking and leverages the Bank's strength in multichannel banking, cutting-edge e-banking tools and technology. The innovative design minimises physical and psychological barriers between the Bank and its customers, thus creating a unique, customer-centric layout.

# FINANCIAL REVIEW

**FY 2015 Return on Average Equity (ROAE)**

**20.1%**

**FY 2015 Return on Average Assets (ROAA)**

**3.4%**

**FY 2015 Cost to income ratio**

**43.9%**

**FY 2015 Net Interest Margin (NIM)**

**7.8%**

**Tier 1 Capital Adequacy Ratio (CAR)**

**12.8%**

per Basel II/III

## FINANCIAL HIGHLIGHTS

### FY 2015 P&L Highlights

- Profit up by 38.0% YoY to GEL 218.7 million
- TBC Bank delivered a return on average equity (ROAE) of 20.1% and a return of average assets (ROAA) of 3.4%
- Total operating income up by 25.9% YoY to GEL 577.0 million
- Cost to income ratio improved to 43.9%, compared to 49.4% in 2014
- Cost of risk on loans stood at 1.7%, up by 0.1pp YoY
- Net interest margin (NIM) at 7.8% in 2015, compared to 8.5% in 2014

### Balance Sheet Highlights 31 December 2015

- Total assets reached GEL 6,935.0 million up by 27.9% YoY
- Gross loans and advances to customers increased to GEL 4,639.0 million, up by 25.2% YoY (8.1% at constant currency)
- Net loans to deposits + IFI funding stood at 95%
- Net Stable Funding Ratio (NSFR) at 116%
- NPLs[1] stood at 4.8%, up 1.7pp YoY and down 0.2pp QoQ
- NPLs coverage stood at 87.4%, (209.9% with collateral), compared to 130.5% as of YE 2014
- Total customer deposits stood at GEL 4,177.9 million up by 25.7% YoY (by 6.5% w/o currency exchange rate effect)
- Tier 1 and Total Capital Adequacy Ratios per Basel II/III stood at 12.8% and 16.0% respectively
- Tier 1 and Total Capital Adequacy Ratios per Basel I stood at 24.7% and 31.0% respectively

## MARKET SHARES, 31 DECEMBER 2015[2]

- Total Assets: 26.7%, up by 0.4pp YoY
- Total Loans: 28.7%, up by 1.1pp YoY
- Loans to Individuals: 31.6%, up by 1.8pp YoY
- Loans to Legal Entities: 26.2%, up by 0.4pp YoY
- Total Deposits: 29.0%, up by 0.6pp YoY
- Deposits of Individuals: 34.3%, up by 0.6pp YoY and maintaining longstanding leadership on the market
- Deposits of Legal Entities: 23.4%, up by 0.4pp YoY. The Bank uses deposits of legal entities mainly for liquidity management purposes

1. For the definition of and additional information on NPLs see page 60.
2. Market shares' figures are based on data from the National Bank of Georgia (NBG) reporting standards.

# RESULTS OVERVIEW FY 2015 AND Q4 2015

## Income Statement Highlights

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Change in % | Q4'15 | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| Net interest income | **412,173** | 338,648 | 21.7% | **106,519** | 107,419 | 92,276 | 15.4% | -0.8% |
| Net fee and commission income | **72,291** | 58,682 | 23.2% | **19,807** | 17,644 | 17,620 | 12.4% | 12.3% |
| Other operating non-interest income | **92,528** | 61,004 | 51.7% | **30,636** | 18,269 | 22,416 | 36.7% | 67.7% |
| Provisioning charges | **(75,991)** | (49,104) | 54.8% | **(5,318)** | (23,415) | (18,652) | -71.5% | -77.3% |
| **Operating income after provisions for impairment** | **501,002** | 409,229 | 22.4% | **151,644** | 119,917 | 113,659 | 33.4% | 26.5% |
| Operating expenses | **(253,130)** | (226,310) | 11.9% | **(77,394)** | (62,085) | (67,694) | 14.3% | 24.7% |
| **Profit before tax** | **247,872** | 182,919 | 35.5% | **74,251** | 57,831 | 45,965 | 61.5% | 28.4% |
| Income tax expense | **(29,176)** | (24,468) | 19.2% | **(7,331)** | (7,226) | (5,940) | 23.4% | 1.4% |
| **Profit for the period** | **218,697** | 158,451 | 38.0% | **66,920** | 50,605 | 40,026 | 67.2% | 32.2% |

## Balance Sheet and Capital Highlights

| | **31-Dec-15** | | 30-Sep-15 | | Change | 31-Dec-14 | | Change |
|---|---|---|---|---|---|---|---|---|
| In millions | **GEL** | **USD** | GEL | USD | QoQ | GEL | USD | YoY |
| Total assets | **6,935.0** | **2,899.1** | 6,936.4 | 2,912.5 | 0.0% | 5,423.5 | 2,910.2 | 27.9% |
| Gross loans | **4,639.0** | **1,937.0** | 4,560.0 | 1,914.7 | 1.7% | 3,706.3 | 1,988.8 | 25.2% |
| Customer deposits | **4,177.9** | **1,744.5** | 4,286.2 | 1,799.7 | -2.5% | 3,322.4 | 1,782.8 | 25.7% |
| Total equity | **1,218.4** | **508.8** | 1,131.9 | 475.3 | 7.6% | 1,019.5 | 547.0 | 19.5% |
| Basel I Tier 1 Capital | **1,157.0** | **483.1** | 1,085.1 | 455.6 | 6.6% | 967.5 | 519.2 | 19.6% |
| Basel I Risk weighted assets | **4,679.8** | **1,958.8** | 4,630.2 | 1,944.2 | 1.1% | 3,910.8 | 2,098.5 | 19.7% |
| Basel II/III Tier 1 Capital | **953.4** | **398.1** | 879.1 | 369.1 | 8.4% | 783.4 | 420.3 | 21.7% |
| Basel II/III Risk weighted assets | **7,476.5** | **3,121.8** | 7,305.8 | 3,067.6 | 2.3% | 6,296.7 | 3,378.8 | 18.7% |

## Key Ratios

| | **31-Dec-15** | 31-Dec-14 | Change YoY | **Q4'15** | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| ROAE | **20.1%** | 18.4% | 1.7% | **23.1%** | 18.2% | 16.0% | 7.1% | 4.9% |
| ROAA | **3.4%** | 3.3% | 0.1% | **3.9%** | 3.1% | 3.1% | 0.8% | 0.8% |
| Pre-provision ROAE | **27.1%** | 24.2% | 2.9% | **24.9%** | 26.7% | 23.5% | 1.5% | -1.8% |
| Cost to Income | **43.9%** | 49.4% | -5.5% | **49.3%** | 43.3% | 51.2% | -1.9% | 6.0% |
| Cost of Risk | **1.7%** | 1.6% | 0.1% | **0.2%** | 2.0% | 1.9% | -1.7% | -1.8% |
| PAR 90 to Gross Loans | **1.0%** | 0.5% | 0.5% | **1.0%** | 1.2% | 0.5% | 0.5% | -0.2% |
| Basel I Total CAR | **31.0%** | 30.4% | 0.5% | **31.0%** | 28.6% | 30.4% | 0.5% | 2.3% |
| Basel II/III Total CAR | **16.0%** | 15.0% | 1.0% | **16.0%** | 14.8% | 15.0% | 1.0% | 1.2% |
| Leverage (times) | **5.7** | 5.3 | 0.4 | **5.7** | 6.1 | 5.3 | 0.4 | (0.4) |

# FINANCIAL REVIEW
CONTINUED

## INCOME STATEMENT DISCUSSION

### Net Interest Income

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Change YoY | Q4'15 | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| Loans and advances to customers | 582,327 | 465,520 | 25.1% | 155,292 | 150,634 | 124,022 | 25.2% | 3.1% |
| Investment securities available for sale | 20,927 | 30,361 | -31.1% | 5,862 | 3,905 | 7,676 | -23.6% | 50.1% |
| Due from other banks | 7,639 | 6,211 | 23.0% | 1,425 | 1,395 | 1,949 | -26.9% | 2.1% |
| Bonds carried at amortised cost* | 22,950 | 0 | NMF | 7,803 | 7,779 | 0 | NMF | 0.3% |
| Investments in leases | 15,217 | 10,265 | 48.2% | 3,791 | 4,298 | 3,133 | 21.0% | -11.8% |
| **Interest income** | **649,059** | 512,357 | 26.7% | **174,172** | 168,011 | 136,780 | 27.3% | 3.7% |
| Customer accounts | 137,489 | 110,041 | 24.9% | 36,156 | 34,854 | 28,075 | 28.8% | 3.7% |
| Due to credit institutions | 70,834 | 43,384 | 63.3% | 23,482 | 18,472 | 10,771 | 118.0% | 27.1% |
| Subordinated debt | 26,363 | 19,069 | 38.2% | 7,438 | 6,737 | 5,136 | 44.8% | 10.4% |
| Debt Securities in issue | 2,105 | 928 | 126.8% | 550 | 529 | 436 | 26.0% | 4.1% |
| Other | 94 | 287 | -67.1% | 28 | 0 | 86 | -67.4% | NMF |
| **Interest expense** | **236,885** | 173,709 | 36.4% | **67,654** | 60,592 | 44,505 | 52.0% | 11.7% |
| **Net interest income** | **412,173** | 338,648 | 21.7% | **106,519** | 107,419 | 92,276 | 15.4% | -0.8% |
| **Net interest margin** | **7.8%** | 8.5% | -0.7% | **7.4%** | 7.9% | 8.5% | -1.1% | -0.5% |

* Investment securities which the Group intends to hold for an indefinite period and which 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 and has reclassified them into bonds carried at amortised cost 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. Such bonds are carried at amortised cost.

### Performance Commentary

**2015 compared to 2014**

In 2015, net interest income grew by 21.7% YoY to GEL 412.2 million, resulting from the 26.7% higher interest income and 36.4% higher interest expense.

The 26.7% YoY increase in interest income to GEL 649.1 million was mainly driven by the increase in interest income from loans to customers, primarily related to the gross loan portfolio increase by 25.2% YoY, or by 8.1% at constant currency. The increase in interest income related to the loan portfolio growth more than offset the decline in loan yields over the same period to 13.6%, from 14.9%, due to the declining interest rates in the country (despite the increased rates on GEL refinancing rate linked loans) and the currency depreciation. The increase in interest income was also supported by the increase in interest income from investment securities (comprising both investment securities available for sale and bonds carried at amortised cost) by GEL 13.5 million, or 44.5% YoY. This was primarily due to the increase in yields on such securities mainly related to the gradual increase of the refinancing rate in the country from 4.0% to 8.0% during 2015. The decline in loan yields led to the decrease in yields on average interest earning assets to 12.3%, compared to 12.8% in 2014.

In the reporting period, the interest expense increased by 36.4% YoY to GEL 236.9 million, mainly due to higher interest expense on customer accounts and other borrowed funds. The increase in interest expense on customer accounts was primarily driven by the 25.7% increase in the respective portfolio, or 6.5% at constant currency, which more than offset the decrease in cost of client deposits of 0.2pp to 3.5% in 2015. The increase in interest expense on other borrowed funds was primarily due to the increased amount of the respective portfolio and the increased rates on Lari-denominated borrowings mainly related to the refinancing rate increase during the period, which in turn more than offset the decreased rates on USD denominated borrowings by 0.7pp. As a result, the Bank's cost of funding ratio remained unchanged on a year-on-year basis at 4.6% in 2015.

Consequently, NIM was 7.8% in 2015, compared to 8.5% in 2014. Overall, the currency depreciation effects mentioned above had 0.3pp decrease effect on NIM. The negative effect on NIM due to excess liquidity was 0.4%.

**Q4 2015 compared to Q4 2014**

In Q4 2015, net interest income increased by GEL 14.2 million, or 15.4% YoY to GEL 106.5 million, as a result of a GEL 37.4 million, or 27.3%, increase in interest income and a GEL 23.1 million, or 52.0%, increase in interest expense, compared to Q4 2014.

The GEL 37.4 million growth in interest income mainly resulted from a GEL 31.3 million increase, or 25.2%, in interest income from loans, which in turn was due to the increase in the loan portfolio. The increase in interest income related to the loan portfolio growth was partially offset by the decrease in loan yields to 13.6%, from 14.3%, resulting from the currency depreciation and the declining loan yields in the country (despite the increased rates on GEL refinancing rate linked loans). The increase in interest income was also driven by the increase in interest income from investment securities by GEL 6.0 million, mainly driven by the increased yields on such securities, as described above. As a result, yields on average interest earning assets decreased to 12.1%, compared to 12.6% in Q4 2014.

The YoY increase in interest expense by GEL 23.1 million, or 52.0%, was primarily attributable to the increased interest expense on other borrowed funds and customer deposits by GEL 12.1 million and GEL 8.1 million, respectively. The increase in interest expense on other borrowed funds was due to the increased interest expense on other borrowed funds primarily related to the increased GEL borrowings and the higher cost of GEL-denominated borrowings, mainly resulting from the refinance rate increase. The increase in interest expense on customer deposits was primarily due to the increase in the respective portfolio, which was partially offset by the decrease in deposits rates of 0.1pp YoY to 3.4%.

As a result, NIM decreased to 7.4% in Q4 2015, compared to 8.5% in the same quarter in 2014. Overall, the currency depreciation effects mentioned above had 0.4pp a decrease effect on NIM. The negative effect on NIM due to excess liquidity was 0.3%.

**Q4 2015 compared to Q3 2015**
On a QoQ basis, net interest income decreased by GEL 0.9 million, or 0.8%, as a result of a 6.2 million, or 3.7%, higher interest income and GEL 7.1 million, or 11.7%, higher interest expense.

The GEL 6.2 million QoQ increase in interest income mainly resulted from the increase in interest income on loans by GEL 4.7 million, which in turn was due to the 1.7% increase in the loan portfolio. The increase in interest income was also driven by an increase in interest income from investment securities by GEL 2.0 million, mainly driven by the increase in its yields by 1.1pp to 8.5%.

The GEL 7.1 million, or 11.7% QoQ, increase in interest expense was primarily due to the increase in interest expense on other borrowed funds by GEL 4.6 million, or 26.7%, resulting from the increased GEL borrowings in the total borrowings and the higher cost of GEL-denominated borrowings, mainly related to the refinance rate increase as well as the early prepayment fees of FMO loans. The slight QoQ increase in interest expense on customer deposits was mainly due to the increase in the respective average portfolio.

Consequently, on a QoQ basis, NIM declined by 0.5pp to 7.4%.

## Fee and Commission Income

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Change in % | Q4'15 | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| Card operations | **49,424** | 35,247 | 40.2% | **13,964** | 12,821 | 10,723 | 30.2% | 8.9% |
| Settlement transactions | **31,218** | 23,893 | 30.7% | **9,225** | 7,968 | 6,653 | 38.7% | 15.8% |
| Guarantees issued | **8,949** | 9,140 | -2.1% | **2,611** | 2,037 | 2,665 | -2.0% | 28.2% |
| Issuance of letters of credit | **5,859** | 6,889 | -15.0% | **1,396** | 1,321 | 1,954 | -28.6% | 5.7% |
| Cash transactions | **10,930** | 6,507 | 68.0% | **3,122** | 2,810 | 2,121 | 47.2% | 11.1% |
| Foreign exchange operations | **1,410** | 1,169 | 20.6% | **306** | 277 | 308 | -0.5% | 10.4% |
| Other | **6,048** | 5,359 | 12.9% | **1,944** | 1,512 | 1,773 | 9.6% | 28.6% |
| **Fee and commission income** | **113,837** | 88,204 | 29.1% | **32,567** | 28,745 | 26,198 | 24.3% | 13.3% |
| Card operations | **27,169** | 16,053 | 69.2% | **8,778** | 6,990 | 5,151 | 70.4% | 25.6% |
| Guarantees received | **957** | 1,173 | -18.4% | **187** | 366 | 287 | -34.9% | -49.0% |
| Cash transactions | **2,707** | 2,592 | 4.4% | **561** | 858 | 635 | -11.6% | -34.6% |
| Settlement transactions | **3,904** | 2,594 | 50.5% | **1,273** | 1,123 | 877 | 45.2% | 13.3% |
| Foreign exchange operations | **5** | 62 | -92.0% | **1** | 1 | 16 | -95.3% | -24.1% |
| Letters of credit | **2,208** | 2,988 | -26.1% | **532** | 593 | 663 | -19.8% | -10.3% |
| Other | **4,597** | 4,061 | 13.2% | **1,427** | 1,169 | 949 | 50.3% | 22.1% |
| **Fee and commission expense** | **41,546** | 29,523 | 40.7% | **12,760** | 11,101 | 8,578 | 48.7% | 14.9% |
| **Net fee and commission income** | **72,291** | 58,682 | 23.2% | **19,807** | 17,644 | 17,620 | 12.4% | 12.3% |

# FINANCIAL REVIEW
## CONTINUED

**2015 compared to 2014**

In 2015, net fee and commission income amounted to GEL 72.3 million, up by GEL 13.6 million, or by 23.2%, compared to 2014. This increase resulted mainly from a GEL 6.0 increase in net fee and commission income from settlement transactions, a GEL 4.3 million from cash transactions and a GEL 3.1 million from card operations, mainly driven by the increased scale of operations. The increase in net fee and commission income was also affected by the currency devaluation. Nominal growth in net fee and commission income also reflects the fact that that fee income is less linked to foreign currency linked than the fee expense. Without the exchange rate effect, net fee and commission income would have increased by GEL 7.0 million, or 11.7% YoY.

**Q4 2015 compared to Q4 2014**

In Q4 2015, net fee and commission income reached GEL 19.8 million, up by GEL 2.2 million, or 12.4%, compared to Q4 2014. This resulted mainly from an increase in net fee and commission income from settlement transactions by GEL 2.2 million, and cash transaction by GEL 1.1 million. These increases were partially offset by the drop in net fee and commission income from issuance of letters of credit and card operations, each by GEL 0.4 million. The increase in net fee and commission income was also affected by the devaluation; without the exchange rate effect, net fee and commission income would have increased by GEL 0.1 million, or by 0.3% YoY. Nominal growth in net fee and commission income also reflects the fact that that fee income is less linked to foreign currency than the fee expense.

**Q4 2015 compared to Q3 2015**

On a QoQ basis, net fee and commission income increased by GEL 2.2 million, or 12.3%, compared to Q3 2015, primarily driven by the increased net fee and commission income from settlement transactions, guarantees and issuance of letters of credit, and cash transactions. These increases were partially offset by the decrease in net fee and commission income from card operations by GEL 0.6 million due to reclassification of loyalty programme points, from administrative expenses to fee expenses which more than offset the increase in fee income (without the reclassification effect, the net fee and commission income from card operations would have increased by GEL 0.5 million).

### Other Operating Non-interest Income

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Change in % | Q4'15 | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| **Gains less losses from trading in foreign currencies and foreign exchange translations** | **67,221** | 42,090 | 59.7% | **18,447** | 13,712 | 15,782 | 16.9% | 34.5% |
| **Gains less losses/(losses less gains) from derivative financial instruments** | **(575)** | (683) | -15.8% | **276** | (362) | (299) | -192.3% | -176.3% |
| Revenues from cash-in terminal services | **777** | 851 | -8.6% | **237** | 173 | 239 | -0.7% | 37.0% |
| Revenues from operational leasing | **8,539** | 6,997 | 22.0% | **1,590** | 2,349 | 1,957 | -18.8% | -32.3% |
| Gain from sale of investment properties | **4,896** | 5,795 | -15.5% | **4,516** | 194 | 2,699 | 67.3% | NMF |
| Gain from sale of inventories of repossessed collateral | **1,836** | 1,644 | 11.6% | **371** | 530 | 550 | -32.7% | -30.1% |
| Administrative fee income from international financial institutions | **708** | 982 | -27.9% | **158** | 216 | 252 | -37.3% | -26.9% |
| Revenues from non-credit related fines | **286** | 236 | 21.2% | **218** | 14 | 183 | 19.4% | NMF |
| Gain from sale of financial option | **4,692** | 0 | NMF | **4,692** | 0 | 0 | NMF | NMF |
| Gain on disposal of premises and equipment | **118** | 126 | -7.0% | **19** | 75 | 41 | -53.7% | -74.8% |
| Other | **4,031** | 2,966 | 35.9% | **112** | 1,367 | 1,012 | -88.9% | -91.8% |
| Other operating income | **25,883** | 19,598 | 32.1% | **11,912** | 4,919 | 6,934 | 71.8% | 142.2% |
| **Other operating non-interest income** | **92,528** | 61,004 | 51.7% | **30,636** | 18,269 | 22,416 | 36.7% | 67.7% |

**2015 compared to 2014**

Total other operating non-interest income increased by GEL 31.5 million, or by 51.7% YoY, to GEL 92.5 million in 2015. This increase was mainly driven by a GEL 25.1 million increase in gains from trading in foreign currencies and foreign exchange translations related to increased volumes and higher gains from relatively higher volatility of the currency exchange rate in 2015. This increase was also driven by a gain of GEL 4.7 million from the sale of the financial option related to one corporate client, which resulted from the previous restructuring of the loan, and the increased revenues from operational leasing.

**Q4 2015 compared to Q4 2014**

Total other operating non-interest income increased by GEL 8.2 million, or by 36.7% YoY, to GEL 30.6 million in Q4 2015. The is increase was mainly driven by the gain of GEL 4.7 million from the sale of the financial option related to one corporate client mentioned above, as well as the increased gains from trading in foreign currencies and foreign exchange translations related to relatively higher volumes and higher gains from relatively higher volatility of the currency exchange rate in 2015.

**Q4 2015 compared to Q4 2015**
On a QoQ basis, other operating non-interest income increased by GEL 12.4 million, or by 67.7%, primarily reflecting the GEL 4.7 million gains from the sale of the financial option and the increase in gains from the sale of earlier foreclosed asset classified as investment property by GEL 4.3 million. The increase in other operating non-interest income was also supported by the increased revenues from currency exchange rate operations due to seasonally high volumes in Q4 trading in foreign currencies and foreign exchange translations.

## Provision for Impairment

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Change in % | Q4'15 | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| Provision for loan impairment | 72,791 | 48,672 | 49.6% | 2,055 | 22,012 | 16,198 | -87.3% | -90.7% |
| Provision for impairment of investments in finance lease | 967 | 77 | NMF | 344 | 260 | -89 | -484.9% | 32.1% |
| Provision for/ (recovery of provision) performance guarantees and credit related commitments | -1,117 | -902 | 23.9% | 1,945 | -3 | 1,875 | 3.7% | NMF |
| Provision for impairment of other financial assets | 3,351 | 1,236 | 171.1% | 974 | 1,145 | 669 | 45.6% | -15.0% |
| Impairment of investment securities available for sale | 0 | 22 | NMF | 0 | 0 | 0 | NMF | NMF |
| **Total provision charges for impairment** | 75,991 | 49,104 | 54.8% | 5,318 | 23,415 | 18,652 | -71.5% | -77.3% |
| **Operating income after provisions for impairment** | 501,002 | 409,229 | 22.4% | 151,644 | 119,917 | 113,659 | 33.4% | 26.5% |
| **Cost of risk** | 1.7% | 1.6% | 0.1% | 0.2% | 2.0% | 1.9% | -1.7% | -1.8% |

As of year-end (YE) 2015 the Bank introduced a revised methodology for the purpose of loan loss provisioning . The updated methodology enables the Bank to assess impairment allowances in a more accurate manner, due to more granular segmentation of the portfolio and introduction various risk parameters, such as cure rate, survival rate and credit conversion factor. Furthermore the Bank enhanced its methodology for the probability of default and recovery rates estimation purposes. Probabilities of defaults are calculated based on migration matrices for different overdue buckets within the portfolio; in the case of recovery rates, the impaired portfolio is segmented based on months in defaults, and amounts to be recovered are estimated respectively.

The Bank has also enhanced the individually significant borrowers' assessment methodology, with the introduction of a scenario analysis. This approach enables the Bank to consider various probable scenarios of cash and/or collateral recoveries leading to a more precise estimation of impairment allowance for these borrowers.

**2015 compared to 2014**
In 2015, total provision charges increased by GEL 26.9 million to GEL 76.0 million (or by GEL 32.5 million to GEL 81.6 million per old IFRS methodology), compared to 2014, mainly driven by the increased charges on loans by GEL 24.1 million. This was mainly driven by the technical increase in provisions related to the local currency devaluation. Without the devaluation effect, loan provision charges would have decreased by GEL 7.5 million following a number of factors such as: the update of the provisioning methodology (which led to the loan provisions recovery in the amount of GEL 7.7 million); recoveries of large corporate borrowers; and overall lower net write offs compared to the previous year.

In 2015, the cost of risk on loans was 1.7% (1.1% w/o the currency rate devaluation effect and 1.3% w/o the currency rate devaluation and IFRS methodology change effect), compared to 1.6% in the same period of the previous year.

**Q4 2015 compared to Q4 2014**
In Q4 2015, total provision charges amounted to GEL 5.3 million (GEL 10.9 million per old IFRS methodology), compared to GEL 18.7 million in Q4 2014. Along with the update of the methodology, which led to recoveries of provisions mainly in retail and micro segments, the decrease was also driven by the loan loss provision recovery of several large corporate borrowers related to either decrease of exposure, or improvement of financial conditions. In addition, provision charges for retail segment were lower in Q4 2015 compared to that of Q4 2014, due to the better performance of the portfolio.

In Q4 2015, the cost of risk on loans was 0.2% (0.9% per old IFRS methodology), compared to 1.9% in the same quarter of 2014.

# FINANCIAL REVIEW
## CONTINUED

**Q4 2015 compared to Q3 2015**
On a QoQ basis, total provision charges decreased by GEL 18.1 million (by GEL 12.5 million per old IFRS methodology), primarily resulting from a GEL 20.0 million decrease (GEL 12.3 million decrease per old IFRS methodology) in loan provision charges related to the overall improvement of portfolio credit quality compared to the previous quarter and recoveries in corporate segment related to either decrease of exposure, or improvement of borrowers' financial conditions.

The decrease in loan provision charges was slightly offset by the increased provision charges on performance guarantees and credit related commitments by GEL 2.1 million resulting from the updated provisioning methodology. Consequently, cost of risk on loans decreased by 1.8pp QoQ, or by 1.1pp per old IFRS methodology.

Further details on asset quality can be found on page 60.

### Operating Expenses

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Change in % | Q4'15 | Q3'15 | Q4'14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|---|---|---|
| **Staff costs** | **142,777** | 122,835 | 16.2% | **42,445** | 35,025 | 37,260 | 13.9% | 21.2% |
| **Depreciation and amortisation** | **26,286** | 24,427 | 7.6% | **7,347** | 6,638 | 8,194 | -10.3% | 10.7% |
| **Provision for liabilities and charges** | **1,102** | 5,500 | -80.0% | **1,102** | 0 | 720 | 53.1% | NMF |
| Professional services | **8,418** | 11,969 | -29.7% | **3,464** | 1,137 | 3,519 | -1.6% | 204.7% |
| Advertising and marketing services | **11,451** | 14,121 | -18.9% | **3,627** | 2,991 | 4,701 | -22.8% | 21.3% |
| Rent | **16,468** | 11,943 | 37.9% | **4,319** | 4,276 | 3,143 | 37.4% | 1.0% |
| Utility services | **4,501** | 3,680 | 22.3% | **1,262** | 1,145 | 942 | 34.0% | 10.2% |
| Intangible asset enhancement | **6,062** | 4,371 | 38.7% | **1,886** | 1,436 | 1,025 | 84.0% | 31.3% |
| Taxes other than on income | **4,598** | 3,899 | 17.9% | **1,204** | 1,013 | 979 | 22.9% | 18.8% |
| Communications and supply | **3,433** | 3,455 | -0.7% | **839** | 801 | 994 | -15.6% | 4.8% |
| Stationery and other office expenses | **3,471** | 2,632 | 31.9% | **1,176** | 809 | 805 | 46.0% | 45.3% |
| Insurance | **2,301** | 1,898 | 21.2% | **382** | 600 | 433 | -11.8% | -36.3% |
| Security services | **1,622** | 1,578 | 2.8% | **414** | 411 | 424 | -2.2% | 0.8% |
| Premises and equipment maintenance | **2,959** | 1,893 | 56.3% | **973** | 628 | 694 | 40.3% | 55.1% |
| Business trip expenses | **1,589** | 1,610 | -1.3% | **417** | 464 | 539 | -22.6% | -10.1% |
| Transportation and vehicles maintenance | **1,328** | 1,216 | 9.2% | **359** | 362 | 330 | 8.8% | -0.8% |
| Charity | **928** | 898 | 3.4% | **139** | 248 | 141 | -1.2% | -43.9% |
| Personnel training and recruitment | **1,230** | 919 | 33.8% | **462** | 282 | 405 | 14.0% | 64.1% |
| Write-down of current assets to fair value less costs to sell | **-178** | 190 | -193.6% | **297** | -24 | -48 | -716.4% | -1324.7% |
| Loss on disposal of Inventory | **86** | 208 | -58.9% | **22** | 50 | 7 | 236.4% | -56.5% |
| Loss on disposal of investment properties | **3** | 0 | NMF | **0** | 0 | 0 | NMF | NMF |
| Loss on disposal of premises and equipment | **34** | 18 | 86.7% | **34** | 0 | 5 | NMF | NMF |
| Impairment of intangible assets | **4,982** | 0 | NMF | **2,862** | 1,794 | 0 | NMF | -259.5% |
| Other | **7,679** | 7,047 | 9.0% | **2,361** | 2,000 | 2,484 | -4.9% | 18.1% |
| **Operating expenses** | **253,130** | 226,310 | 11.9% | **77,394** | 62,085 | 67,694 | 14.3% | 24.7% |
| **Profit before tax** | **247,872** | 182,919 | 35.5% | **74,251** | 57,831 | 45,965 | 61.5% | 28.4% |
| Income tax expense | **29,176** | 24,468 | 19.2% | **7,331** | 7,226 | 5,940 | 23.4% | 1.4% |
| **Profit for the period** | **218,697** | 158,451 | 38.0% | **66,920** | 50,605 | 40,026 | 67.2% | 32.2% |
| | | | | | | | | |
| **Cost to income ratio** | **43.9%** | 49.4% | -5.5% | **49.3%** | 43.3% | 51.2% | -1.9% | 6.0% |
| **ROAE** | **20.1%** | 18.4% | 1.7% | **23.1%** | 18.2% | 16.0% | 7.1% | 4.9% |
| **ROAA** | **3.4%** | 3.3% | 0.1% | **3.9%** | 3.1% | 3.1% | 0.8% | 0.8% |

**2015 compared to 2014**
In 2015, total operating expenses amounted to GEL 253.1 million, up by GEL 26.8 million, or by 11.9% YoY. The increase was primarily due to the increase in staff costs by GEL 19.9 million, or 16.2% YoY. Staff costs grew primarily due to the implementation of a new management compensation system, a general increase in salaries, bonuses and various HR management-related costs at TBC Group level related to the overall increase in the scale of the business. The increase in operating expenses also resulted from the one-off impairment of intangible assets and the increase in rent expenses mainly due to the currency depreciation.

As a result, the cost to income ratio was 43.9% in 2015, compared to 49.4% in 2014.

**Q4 2015 compared to Q4 2014**

In Q4 2015, total operating expenses increased to GEL 77.4 million, up by GEL 9.7 million, or by 14.3% YoY. The increase was primarily driven by the increase in staff costs by GEL 5.2 million, or 13.9% YoY. This rise was primarily due to the implementation of a new management compensation system, a general increase in salaries, bonuses and various HR management-related costs at TBC Group level related to the growing scale of the business. The increase in operating expenses was also due to the one-off impairment of intangible assets and rent expenses by GEL 2.9 million and GEL 1.2 million, respectively.

As a result, the cost to income ratio stood at 49.3% in Q4 2015, compared to 51.2% in Q4 2014.

**Q4 2015 compared to Q3 2015**

On a QoQ basis, operating expenses increased by GEL 15.3 million, or 24.7%, compared to Q3 2015. The increase was mainly due to the seasonally high operating cost in staff and administrative expenses in the fourth quarter.

As a result, the cost to income ratio was up by 6.0pp QoQ.

## BALANCE SHEET DISCUSSION

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | 31-Dec-14 | Change YoY | Change QoQ |
|---|---|---|---|---|---|
| Cash, due from banks and mandatory cash balances with NBG | **1,202.9** | 1,396.7 | 901.9 | -13.3% | 34.3% |
| Loans and advances to customers (Net) | **4,444.9** | 4,350.7 | 3,556.5 | 2.2% | 25.0% |
| Financial securities | **679.4** | 629.5 | 466.5 | 7.9% | 45.6% |
| Fixed and intangible assets & investment property | **349.7** | 331.3 | 322.7 | 5.6% | 8.4% |
| Other assets | **258.1** | 228.2 | 175.9 | 13.1% | 46.7% |
| **Total assets** | **6,935.0** | 6,936.4 | 5,423.5 | 0.0% | 27.9% |
| Due to credit institutions | **1,113.6** | 1,123.9 | 749.3 | -0.9% | 48.6% |
| Customer accounts | **4,177.9** | 4,286.2 | 3,322.4 | -2.5% | 25.7% |
| Debt Securities in issue | **21.7** | 23.9 | 20.4 | -9.3% | 6.3% |
| Subordinated Debt | **283.6** | 250.6 | 188.0 | 13.2% | 50.9% |
| Other liabilities | **119.7** | 119.9 | 123.8 | -0.2% | -3.4% |
| **Total Liabilities** | **5,716.5** | 5,804.5 | 4,404.0 | -1.5% | 29.8% |
| **Total equity** | **1,218.4** | 1,131.9 | 1,019.5 | 7.6% | 19.5% |

### Assets

As of 31 December 2015, TBC Bank's total assets amounted to GEL 6,935.0 million, up by GEL 1,515.5 million, or by 27.9% YoY. This increase in total assets was mainly due to the increase in net loans to customers by GEL 888.4 million, or by 25.0% YoY. The YoY increase in total assets also resulted from a GEL 519.6 million, or 37.6%, increase in liquid assets (comprising cash and cash equivalents, amounts due from other banks, mandatory cash balances and investment securities, less corporate shares), compared to 31 December 2014.

On a QoQ basis, total assets were broadly stable. The increases in net loans to customers by GEL 94.2 million or 2.2%, and in premises and equipment by GEL 32.1 million, or 14.9% due to the revaluation, was offset by the decrease in liquid assets by GEL 103.4 million during the period.

The liquid assets to liability ratio stood at 32.7%, compared to 30.8% as of 31 December 2014 and 34.0% as of 30 September 2015.

# FINANCIAL REVIEW
## CONTINUED

As of 31 December 2015, the gross loan portfolio amounted to GEL 4,639.0 million, up by 25.2% YoY and by 1.7% QoQ. Gross loans denominated in foreign currency accounted for 64.9% of total gross loans, compared to 63.2% as of 31 December 2014 and 65.4% as of 30 September 2015, reflecting the local currency devaluation in 2015. The loans overdue more than 90 days over gross loan portfolio stood at 1.0%, compared to 0.5% and 1.2% as of 31 December 2014 and 30 September 2015, respectively. The NPLs+Restructured ratio stood at 5.8%, compared to 3.7% as of 31 December 2014 and 5.5% as of 30 September 2015, and the NPLs+Restructured loans coverage ratio stood at 72.7% (169.8% including the collateral), compared to 109.4% as of 31 December 2014 and 84.2% as of 30 September 2015. As of 31 December 2015, NPLs per updated methodology stood at 4.8%, compared to 3.1% and 4.9% as of 31 December 2014 and 30 September 2015, respectively. The NPLs coverage ratio stood at 87.4% (209.9% including the collateral), compared to 130.5% as of 31 December 2014 and 93.0% as of 30 September 2015.

### Asset Quality

**PAR 30 by Segments and Currencies**

| | 31-Dec-15 | | | 30-Sep-15 | | | 31-Dec-14* | | |
|---|---|---|---|---|---|---|---|---|---|
| Par 30 | GEL | FC | **Total** | GEL | FC | **Total** | GEL | FC | **Total** |
| Corporate | 0.1% | 1.1% | **0.9%** | 0.2% | 2.8% | **2.2%** | 0.3% | 0.7% | **0.6%** |
| Retail | 2.1% | 2.5% | **2.3%** | 2.7% | 2.8% | **2.8%** | 1.9% | 1.1% | **1.5%** |
| SME | 1.8% | 3.8% | **3.5%** | 1.8% | 3.8% | **3.4%** | 0.4% | 2.1% | **1.8%** |
| Micro | 2.7% | 5.6% | **3.5%** | 2.1% | 4.8% | **2.9%** | 1.3% | 1.8% | **1.4%** |
| **Total** | 1.8% | 2.3% | **2.1%** | 2.0% | 3.1% | **2.7%** | 1.3% | 1.2% | **1.2%** |

* December 2014 segmental data is based on Bank Constanta segment definition, which was amended after the Bank's merger with Constanta in Q1 2015.

### Total
The QoQ decrease in PAR 30 by 0.6pp was mainly driven by lower share of PAR 30 loans in corporate and retail segments by year-end. The YoY increase of 0.9pp in PAR 30 was attributable to the increase across all segments from very low level of PAR 30 loans in the beginning of the period.

**Retail Segment**
Retail segment PAR 30 decreased by 0.5pp QoQ due to the overall improvement of retail portfolio credit quality compared to the previous quarter. The YoY increase of 0.8pp primarily resulted from the growth in FC-denominated overdue loans in mortgage and consumer loans portfolios.

**Corporate**
The QoQ decrease of 1.3pp in PAR 30 resulted from repayments and recoveries. The YoY increase in PAR 30 by 0.3pp was mainly due to two corporate borrowers.

**SME**
The SME segment PAR 30 increased marginally by 0.1pp QoQ, but grew by 1.7pp on a YoY basis, mainly driven by the increase in TBC Kredit's portfolio.

**Micro**
Micro segment PAR 30 increased by 0.7pp QoQ and by 2.2pp YoY, mainly driven by the FC-denominated micro business loans.

### Updated NPLs

| | 31-Dec-15 | | | 30-Sep-15 | | | 31-Dec-14* | | |
|---|---|---|---|---|---|---|---|---|---|
| Updated NPLs* | GEL | FC | **Total** | GEL | FC | **Total** | GEL | FC | **Total** |
| Corporate | 0.6% | 10.2% | **7.9%** | 0.3% | 10.2% | **7.9%** | 0.8% | 7.9% | **5.7%** |
| Retail | 1.8% | 3.3% | **2.7%** | 1.9% | 3.4% | **2.8%** | 1.7% | 2.1% | **1.9%** |
| SME | 5.0% | 4.4% | **4.5%** | 5.0% | 4.9% | **4.9%** | 0.3% | 1.4% | **1.2%** |
| Micro | 2.5% | 8.5% | **4.2%** | 2.3% | 7.4% | **3.8%** | 1.3% | 3.3% | **2.0%** |
| **Total** | 1.9% | 6.4% | **4.8%** | 1.8% | 6.6% | **4.9%** | 1.3% | 4.1% | **3.1%** |

* The Bank updated its NPL reporting and provisioning methodology according to international best practices. The updated methodology allows for a more granular analysis of the loan portfolio and a better assessment of provisioning requirements.

## Updated Methodology for calculating NPLs

Starting from Q4 2015, the Bank has updated provisioning methodology and introduced a new NPL reporting standard to ensure increased accuracy of the provision assessment and consistency with the established market practice.

## Total

NPLs calculated per updated methodology over gross loans stood at 4.8%, down by 0.2pp QoQ and up by 1.7pp YoY. The YoY increase in updated NPLs in all segments was mainly driven by the local currency devaluation.

**Retail**

Updated NPL ratio in retail segment was 2.7% as of 31 December 2015, down by 0.1pp QoQ and up by 0.8pp YoY. The YoY growth in NPLs was mainly driven by FC-denominated mortgage and consumer portfolios. NPLs of LC-denominated loans are stable due to the good performance of unsecured retail loans throughout 2015.

**Corporate**

NPL ratio decreased by 0.1pp QoQ. On a YoY basis, NPL ratio increased by 2.2pp YoY, mainly driven by FC-denominated portfolio due to several large borrowers.

**SME**

The YoY increase in NPL loans ratio is driven by the local currency devaluation and increased NPLs in TBC Kredit's portfolio.

**Micro**

The share of FC loans in total micro portfolio represented 28.5% of the total. The increase in Micro segment NPL loans ratio was mainly driven by FC-denominated micro business loans.

## PAR 90+Restructured Loans to Gross Loans by Segments and Currencies

| | 31-Dec-15 | | | 30-Sep-15 | | | 31-Dec-14* | | |
|---|---|---|---|---|---|---|---|---|---|
| PAR 90+Restructured loans | GEL | FC | **Total** | GEL | FC | **Total** | GEL | FC | **Total** |
| Corporate | 1.4% | 12.2% | **9.6%** | 5.5% | 8.8% | **8.0%** | 0.6% | 9.7% | **6.9%** |
| Retail | 2.3% | 4.0% | **3.3%** | 2.5% | 4.2% | **3.6%** | 1.9% | 2.2% | **2.1%** |
| SME | 5.0% | 5.0% | **5.0%** | 5.1% | 5.5% | **5.5%** | 0.4% | 1.9% | **1.6%** |
| Micro | 2.7% | 10.3% | **4.9%** | 2.7% | 9.6% | **4.7%** | 1.5% | 5.0% | **2.8%** |
| **Total** | 2.4% | 7.6% | **5.8%** | 3.4% | 6.5% | **5.5%** | 1.4% | 5.0% | **3.7%** |

* December 2014 segmental data is based on Bank Constant's segment definition, which was amended after the Bank's merger with Constanta in Q1 2015.

## Total

PAR 90+ restructured loans ratio increased by 0.3pp QoQ and by 2.1pp YoY. The latter was mainly driven by the devaluation and the consequent increase in restructured loans.

**Retail**

PAR 90+restructured loans ratio decreased by 0.3pp QoQ and grew by 1.2pp YoY. The YoY growth is mainly driven by increased restructurings in mortgage and consumer loans portfolio.

**Corporate**

PAR 90+ restructured loans ratio increased by 1.6pp QoQ and by 2.6pp YoY, mainly due to the restructuring of a few large corporate borrowers.

**SME**

The YoY Increase of 3.4pp in PAR 90+ restructured loans ratio was mainly due to the increase restructurings of TBC Kredit portfolio.

**Micro**

The share of FC loans in total micro portfolio was 28.5%. The YoY increase in Micro segment PAR 90+ restructured loans ratio was mainly driven by FC-denominated micro business loans.

# FINANCIAL REVIEW
## CONTINUED

### PAR 90+Restructured Loans and NPLs Coverage

| PAR 90+Restructured loans coverage | 31-Dec-15 excl. collateral | 31-Dec-15 incl. collateral | 30-Sep-15 excl. collateral | 30-Sep-15 incl. collateral | 31-Dec-14* excl. collateral | 31-Dec-14* incl. collateral |
|---|---|---|---|---|---|---|
| Corporate | 74.7% | 157.4% | 89.8% | 179.9% | 106.2% | n/a |
| Retail | 83.3% | 190.0% | 100.8% | 206.2% | 131.9% | n/a |
| SME | 39.7% | 178.3% | 31.7% | 168.6% | 60.5% | n/a |
| Micro | 74.9% | 177.0% | 79.4% | 179.6% | 99.5% | n/a |
| **Total** | 72.7% | 169.8% | 84.2% | 185.6% | 109.4% | n/a |

* December 2014 segmental data is based on Bank Constanta's segment definition, which was amended after the Bank's merger with Constanta in Q1 2015.

| Updated NPLs coverage | 31-Dec-15 excl. collateral | 31-Dec-15 incl. collateral | 30-Sep-15 excl. collateral | 30-Sep-15 incl. collateral | 31-Dec-14* excl. collateral | 31-Dec-14* incl. collateral |
|---|---|---|---|---|---|---|
| Corporate | 91.3% | 222.3% | 90.9% | n/a | 129.7% | n/a |
| Retail | 101.5% | 199.5% | 127.0% | n/a | 140.7% | n/a |
| SME | 44.1% | 193.7% | 35.5% | n/a | 82.2% | n/a |
| Micro | 87.5% | 188.8% | 98.8% | n/a | 137.8% | n/a |
| **Total** | 87.4% | 209.9% | 93.0% | n/a | 130.5% | n/a |

PAR 90+Restructured loans coverage remained strong at 72.7%, or 169.8% with the discounted value of collateral compared to 84.2% and 185.6% respectively as of September 2015. The 11.5pp QoQ drop mainly reflected the increased portion of restructured loans into the NPL and restructured loans ratio due to the reasons described above. The NPLs coverage ratio based on the updated NPL definition stood at 87.4%, or at 209.9% with collateral.

**Liabilities**
As of 31 December 2015, TBC Bank's total liabilities amounted to GEL 5,716.5 million, up by 29.8% YoY and down by 1.5% QoQ. The YoY growth, by GEL 1,312.6 million, was primarily due to the GEL 855.5 million, or 25.7%, increase in customer deposits. This was mainly driven by the increase in retail deposits. The rise was also determined by the increase in other borrowed funds, by GEL 377.0 million or 56.8%, mainly resulting from the borrowings attracted from International Financial Institutions (IFIs) as well as increased short-term GEL borrowing from NBG consistence with the liquidity management policy.

On a QoQ basis, total liabilities decreased by GEL 88.0 million, or by 1.5%, primarily due to the reduced legal entity deposits, which in turns resulted from liquidity management needs during the period.

**Liquidity**
The Bank's liquidity ratio, as defined by the NBG, stood at 34.4% as of 31 December 2015, compared to 31.1% and 33.6% as of 31 December 2014 and 30 September 2015, respectively.

**Total Equity**
As of 31 December 2015, TBC's total equity amounted to GEL 1,218.4 million, up from GEL 1,019.5 million as of 31 December 2014 and GEL 1,131.9 million as of 30 September 2015. The growth was primarily driven by the net income attributable to the Bank's owners.

**Regulatory Capital**
As of 31 December 2015, the Bank's Basel II/III tier 1 and total capital adequacy ratios (CAR) stood at 12.8% and 16.0%, respectively, compared to 12.4% and 15.0% as of 31 December 2014, and 12.0% and 14.8% as of 30 September 2015. The minimum capital requirements set by the NBG for Basel II/III tier 1 and total capital ratios are 8.5% and 10.5%, respectively. The Bank's Basel II/III tier 1 capital amounted to GEL 953.4 million, compared to GEL 783.4 million as of 31 December 2014 and GEL 879.1 million as of 30 September 2015. Risk weighted assets were GEL 7,476.5 million as of 31 December 2015, up by GEL 1,179.8 million YoY and up by GEL 170.6 million QoQ.

The Bank's Basel I tier 1 capital ratio was 24.7%, broadly stable YoY and up by 1.3pp QoQ. Tier 1 capital reached GEL 1,157.0 million, compared to 967.5 Million and 1,085.1 million as of 31 December 2014 and 30 September 2015, respectively. Risk weighted assets were GEL 4,679.8 million as of 31 December 2015, up by GEL 769.0 million YoY and up by GEL 49.6 million QoQ.

1. Starting from June 2014 the National Bank of Georgia enforced Basel II/III regulation.

## RESULTS BY SEGMENTS AND SUBSIDIARIES

Following the merger with Bank Constanta in January 2015, the Bank revised the segment definitions as per below:

- Corporate segment includes business customers that have annual revenue of GEL 8.0 million or more or 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 segment business customers with loans below USD 70K, as well as pawn loans, credit cards and cash cover loans granted in TBC Bank Constanta branches, and deposits up to USD 20K in urban areas and up to USD 100K in rural areas of the customers of TBC Bank Constanta branches. Some other customers may also be assigned to the Micro segment on a discretionary basis;
- SME segment includes business customers that are not included in either Corporate or Micro segments; some other legal entity customers may also be assigned to the SME segment on a discretionary basis;
- Retail segment includes individuals that are not included in the other categories; and
- Corporate Centers and Other Operations comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

As a result, loans amounting to GEL 93.3 million were reclassified from the retail to the micro segment and GEL 2.0 million was reclassified from the retail to the SME segment. As for the deposits, GEL 54.3 million was reclassified from retail to micro deposits, GEL 1.2 million from retail to SME deposits, and GEL 8.1 million from SME to corporate deposits.

The following table sets out the information on the financial results of TBC Bank's segments for full-year 2015:

| In thousands of GEL | Retail | Corporate | SME | Micro | Corporate Centers | Total |
|---|---|---|---|---|---|---|
| **FY 2015** | | | | | | |
| Interest income | 271,082 | 135,615 | 68,303 | 107,326 | 66,732 | **649,059** |
| Interest expense | -94,657 | -31,189 | -9,376 | -2,268 | -99,396 | **-236,885** |
| Net Transfer pricing | 12,828 | -34,855 | -2,455 | -26,788 | 51,270 | **0** |
| **Net interest income** | 189,253 | 69,571 | 56,473 | 78,270 | 18,606 | **412,173** |
| Fee and commission income | 72,242 | 18,397 | 11,739 | 6,880 | 4,579 | **113,837** |
| Fee and commission expense | -31,698 | -3,864 | -3,917 | -1,242 | -825 | **-41,546** |
| **Net fee and commission income** | 40,544 | 14,533 | 7,822 | 5,638 | 3,755 | **72,291** |
| Gains less losses from trading in foreign currencies | 15,038 | 23,647 | 21,488 | 1,787 | 2,682 | **64,642** |
| Foreign exchange translation gains less losses/(losses less gains) | 0 | 0 | 0 | 0 | 2,579 | **2,579** |
| Net losses from derivative financial instruments | 0 | 0 | 0 | 0 | -575 | **-575** |
| Loss from initial recognition of assets below market | 0 | 0 | 0 | 0 | 0 | **0** |
| (Losses less gains)/gains less losses from disposal of investment securities available for sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Other operating income | 2,298 | 13,808 | 1,089 | 95 | 8,592 | **25,883** |
| **Other operating non-interest income** | 17,337 | 37,455 | 22,577 | 1,882 | 13,277 | **92,528** |
| Provision for loan impairment | -29,003 | -15,396 | -11,628 | -16,763 | 0 | **-72,791** |
| (Provision)/recovery of provision for liabilities, charges and credit related commitments | -4,113 | 4,581 | 731 | -82 | 0 | **1,117** |
| Recovery of provision /(provision) for impairment of investments in finance lease | 0 | 0 | 0 | 0 | -967 | **-967** |
| (Provision) /recovery of provision for impairment of other financial assets | -735 | -561 | -388 | -317 | -1,349 | **-3,351** |
| **Profit before G&A expenses and income taxes** | 213,283 | 110,183 | 75,586 | 68,628 | 33,321 | **501,002** |
| Staff costs | -69,497 | -16,947 | -16,439 | -30,470 | -9,424 | **-142,777** |
| Depreciation and amortisation | -15,295 | -1,092 | -2,138 | -6,436 | -1,325 | **-26,286** |
| Provision for liabilities and charges | 0 | 0 | 0 | 0 | -1,102 | **-1,102** |
| Administrative and other operating expenses | -46,437 | -4,879 | -7,712 | -14,531 | -9,404 | **-82,964** |
| **Operating expenses** | -131,230 | -22,918 | -26,289 | -51,437 | -21,255 | **-253,130** |
| **Profit before tax** | 82,053 | 87,266 | 49,297 | 17,190 | 12,066 | **247,872** |
| **Income tax expense** | -11,118 | -13,384 | -7,719 | -2,579 | 5,624 | **-29,176** |
| **Profit for the year** | 70,935 | 73,881 | 41,578 | 14,612 | 17,690 | **218,697** |

# FINANCIAL REVIEW
## CONTINUED

The following table sets out the loans and customer deposits portfolios of TBC Bank's business segments as of 31 December 2015, 30 September 2015 and 31 December 2014.

| In thousands of GEL | 31-Dec-15 | 30-Sep-15 | 31-Dec-14 |
|---|---|---|---|
| **Loans and Advances to Customers** | | | |
| *Consumer* | *871,996* | 816,601 | 700,430 |
| *Mortgage* | *905,274* | 879,645 | 702,190 |
| *Pawn* | *242,698* | 224,648 | 169,002 |
| Retail | 2,019,969 | 1,920,894 | 1,571,622 |
| Corporate | 1,500,104 | 1,542,511 | 1,231,729 |
| SME | 625,628 | 600,644 | 535,899 |
| Micro | 493,327 | 495,988 | 367,010 |
| **Total loans and advances to customers (gross)** | 4,639,029 | 4,560,036 | 3,706,260 |
| Less: Provision for loan impairment | -194,143 | -209,303 | -149,764 |
| **Total loans and advances to customers (net)** | 4,444,886 | 4,350,733 | 3,556,496 |
| | | | |
| **Customer Accounts** | | | |
| Retail | 2,469,878 | 2,397,898 | 1,921,650 |
| Corporate | 1,001,341 | 1,139,476 | 840,645 |
| SME | 633,211 | 674,552 | 500,906 |
| Micro | 73,501 | 74,259 | 59,228 |
| **Total customer accounts** | 4,177,931 | 4,286,185 | 3,322,429 |

### Retail Banking
As of 31 December 2015, retail loans stood at GEL 2,020.0 million, up by 28.5% YoY (12.4% excluding currency rate effect) and up by 5.2% QoQ, and accounted for 31.6% market share of total individual loans. As of 31 December 2015, foreign currency loans represented 59.7% of the total retail loan portfolio.

In the same period, retail deposits increased to GEL 2,469.9 million, up by 28.5% YoY (4.8% excluding currency rate effect) and up by 3.0% QoQ, and accounted for 34.3% market share of total individual deposits. Term deposits accounted for 63.2% of the total retail deposit portfolio as of 31 December 2015. Foreign currency deposits represented 88.6% of the total retail deposit portfolio.

In 2015, retail loan yields and deposit rates stood at 14.9% and 4.2% respectively, and the segment's cost of risk on loans was 1.6%. The retail segment contributed for 32.4%, or GEL 70.9 million, to TBC's total net income in 2015.

### Corporate Banking
As of 31 December 2015, corporate loans amounted to GEL 1,500.1 million, up by 21.8% YoY (1.7% excluding currency rate effect) and down by 2.7% QoQ due to one-off repayment by one large borrower. Foreign currency loans accounted for 76.3% of the total corporate loan portfolio.

As of the same date, corporate deposits totalled GEL 1,001.3 million, up by 19.1% YoY (7.4% excluding currency rate effect) and down by 12.1% QoQ. Foreign currency corporate deposits represented 46.4% of the total corporate deposit portfolio.

In 2015, corporate loan yields and deposit rates stood at 9.6% and 3.3%, respectively. In the same period, the cost of risk on loans was 1.1%. In terms of profitability, the corporate segment's net profit reached GEL 73.9 million, or 33.8% of TBCs total net income.

## SME Banking

As of 31 December 2015, SME loans amounted to GEL 625.6 million, up by 16.7% YoY (down by 2.2% excluding currency rate effect) and up by 4.2% QoQ. Foreign currency loans accounted for 83.1% of the total SME portfolio.

As of the same date, SME deposits stood at GEL 633.2 million, up by 26.4% YoY (11.4% excluding currency rate effect) and down by 6.1% QoQ. Foreign currency SME deposits represented 61.0% of the total SME deposit portfolio.

In 2015, SME loan yields and deposit rates stood at 11.6% and 1.6%, respectively while the cost of risk on loans was 2.0%. In terms of profitability, net profit for the SME segment amounted to GEL 41.6 million, or 19.0%, of TBC's total net income.

## Micro Banking

As of 31 December 2015 micro loans totalled GEL 493.3 million, up by 34.4% YoY (25.9% excluding currency rate effect) and down 0.5% QoQ due to reduction in agro loans as a result of termination of government subsidised agro lending programme for loans up to 20,000 GEL. Foreign currency loans represented 28.5% of the total micro loan portfolio.

As of the same date, micro customer deposits amounted to GEL 73.5 million, up by 24.1% YoY (8.0% excluding currency rate effect) and down by 1.0% QoQ. Foreign currency micro deposits represented 61.1% of the total micro deposit portfolio.

In 2015, micro loan yields and deposit rates stood at 23.3% and 3.3%, respectively. In the same period, the cost of risk on loans was 3.6%. In terms of profitability, the micro segment's net profit reached GEL 14.6 million, or 6.7% of TBC's total net income.

# FINANCIAL REVIEW
## CONTINUED

## ANNEXES

### Consolidated Balance Sheet

| In thousands of GEL | 31-Dec-15 | 30-Sep-15 | 31-Dec-14 |
|---|---|---|---|
| Cash and cash equivalents | **720,347** | 903,136 | 532,118 |
| Due from other banks | **11,041** | 25,944 | 33,704 |
| Mandatory cash balances with National Bank of Georgia | **471,490** | 467,649 | 336,075 |
| Loans and advances to customers (Net) | **4,444,886** | 4,350,733 | 3,556,496 |
| Investment securities available for sale | **307,310** | 220,538 | 466,510 |
| Repurchase receivables | **0** | 41,527 | 0 |
| Bonds carried at amortised cost | **372,092** | 367,401 | 0 |
| Investments in finance leases | **75,760** | 67,077 | 50,907 |
| Investment properties | **57,600** | 73,742 | 76,216 |
| Goodwill | **2,726** | 2,726 | 2,726 |
| Intangible assets | **44,344** | 41,855 | 37,756 |
| Premises and equipment | **247,767** | 215,689 | 208,692 |
| Other financial assets | **64,317** | 62,226 | 43,857 |
| Deferred income tax asset | **1,546** | 434 | 383 |
| Current income tax prepayment | **9,856** | 10,276 | 251 |
| Other assets | **103,914** | 85,457 | 77,776 |
| **TOTAL ASSETS** | **6,934,995** | 6,936,408 | 5,423,466 |
| | | | |
| **LIABILITIES** | | | |
| Due to Credit Institutions | **1,113,574** | 1,123,858 | 749,285 |
| Customer accounts | **4,177,931** | 4,286,185 | 3,322,428 |
| Current income tax liability | **912** | 722 | 12,433 |
| Debt Securities in issue | **21,714** | 23,949 | 20,423 |
| Deferred income tax liability | **29,244** | 25,478 | 23,187 |
| Provisions for liabilities and charges | **9,461** | 6,316 | 11,899 |
| Other financial liabilities | **39,435** | 55,009 | 41,346 |
| Subordinated debt | **283,648** | 250,612 | 188,015 |
| Other liabilities | **40,627** | 32,409 | 34,974 |
| **TOTAL LIABILITIES** | **5,716,546** | 5,804,537 | 4,403,990 |
| | | | |
| **EQUITY** | | | |
| Share capital | **19,587** | 19,587 | 19,576 |
| Share premium | **407,474** | 406,058 | 405,658 |
| Retained earnings | **712,743** | 645,180 | 532,992 |
| Share-based payment reserve | **12,755** | 9,187 | 4,624 |
| Other reserves | **58,701** | 44,027 | 49,255 |
| **TOTAL EQUITY** | **1,211,260** | 1,124,039 | 1,012,105 |
| Non-controlling interest | **7,189** | 7,832 | 7,371 |
| **TOTAL EQUITY** | **1,218,449** | 1,131,871 | 1,019,477 |
| **TOTAL LIABILITIES AND EQUITY** | **6,934,995** | 6,936,408 | 5,423,466 |

## Consolidated Income Statement

| In thousands of GEL | 31-Dec-15 | 31-Dec-14 | Q4'15 | Q3'15 | Q4'14 |
|---|---|---|---|---|---|
| Interest income | 649,059 | 512,357 | 174,172 | 168,011 | 136,780 |
| Interest expense | -236,885 | -173,709 | -67,654 | -60,592 | -44,505 |
| **Net interest income** | 412,173 | 338,648 | 106,519 | 107,419 | 92,276 |
| Fee and commission income | 113,837 | 88,204 | 32,567 | 28,745 | 26,198 |
| Fee and commission expense | -41,546 | -29,523 | -12,760 | -11,101 | -8,578 |
| **Net fee and commission income** | 72,291 | 58,682 | 19,807 | 17,644 | 17,620 |
| Gains less losses from trading in foreign currencies | 64,642 | 39,730 | 17,536 | 16,545 | 14,618 |
| Foreign exchange translation gains less losses | 2,579 | 2,359 | 912 | -2,833 | 1,164 |
| Gains less losses/(losses less gains) from derivative financial instruments | -575 | -683 | 276 | -362 | -299 |
| Other operating income | 25,883 | 19,598 | 11,912 | 4,919 | 6,934 |
| **Other operating non-interest income** | 92,528 | 61,004 | 30,636 | 18,269 | 22,416 |
| Provision for loan impairment | -72,791 | -48,672 | -2,055 | -22,012 | -16,198 |
| Provision for impairment of investments in finance lease | -967 | -77 | -344 | -260 | 89 |
| Provision for/(recovery of provision) performance guarantees and credit related commitments | 1,117 | 902 | -1,945 | 3 | -1,875 |
| Provision for impairment of other financial assets | -3,351 | -1,236 | -974 | -1,145 | -669 |
| Impairment of investment securities available for sale | 0 | -22 | 0 | 0 | 0 |
| **Operating income after provisions for impairment** | 501,002 | 409,229 | 151,644 | 119,917 | 113,659 |
| Staff costs | -142,777 | -122,835 | -42,445 | -35,025 | -37,260 |
| Depreciation and amortisation | -26,286 | -24,427 | -7,347 | -6,638 | -8,194 |
| Provision for liabilities and charges | -1,102 | -5,500 | -1,102 | 0 | -720 |
| Administrative and other operating expenses | -82,964 | -73,548 | -26,500 | -20,423 | -21,520 |
| **Operating expenses** | -253,130 | -226,310 | -77,394 | -62,085 | -67,694 |
| **Profit before tax** | 247,872 | 182,919 | 74,251 | 57,831 | 45,965 |
| Income tax expense | -29,176 | -24,468 | -7,331 | -7,226 | -5,940 |
| **Profit for the period** | 218,697 | 158,451 | 66,920 | 50,605 | 40,026 |
| Profit attributable to owners of the bank | 218,879 | 157,451 | 67,563 | 50,317 | 39,901 |

# FINANCIAL REVIEW
## CONTINUED

## KEY RATIOS

### Average Balances

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

| Ratios (based on monthly averages, where applicable) | Dec-15 | Dec-14 | Q4'15 | Q3'15 | Q4'14 |
|---|---|---|---|---|---|
| ROAE[1] | **20.1%** | 18.4% | **23.1%** | 18.2% | 16.0% |
| ROAA[2] | **3.4%** | 3.3% | **3.9%** | 3.1% | 3.1% |
| Pre-provision ROAE | **27.1%** | 24.2% | **24.9%** | 26.7% | 23.5% |
| Pre-provision ROAA | **4.6%** | 4.4% | **4.2%** | 4.5% | 4.5% |
| Cost: Income[3] | **43.9%** | 49.4% | **49.3%** | 43.3% | 51.2% |
| Cost of Risk[4] | **1.7%** | 1.6% | **0.2%** | 2.0% | 1.9% |
| NIM[5] | **7.8%** | 8.5% | **7.4%** | 7.9% | 8.5% |
| Loan yields[6] | **13.6%** | 14.9% | **13.6%** | 13.6% | 14.3% |
| Deposit rates[7] | **3.5%** | 3.7% | **3.4%** | 3.4% | 3.5% |
| Yields on interest earning assets[8] | **12.3%** | 12.8% | **12.1%** | 12.3% | 12.6% |
| Cost of Funding[9] | **4.6%** | 4.6% | **4.8%** | 4.5% | 4.4% |
| Spread[10] | **7.7%** | 8.2% | **7.3%** | 7.8% | 8.2% |
| PAR 90 to gross loans[11] | **1.0%** | 0.5% | **1.0%** | 1.2% | 0.5% |
| PAR 90+restructured loans to gross loans[12] | **5.8%** | 3.7% | **5.8%** | 5.5% | 3.7% |
| Updated NPLs to gross loans[13] | **4.8%** | 3.1% | **4.8%** | 4.9% | 3.1% |
| Provision level to gross loans[14] | **4.2%** | 4.0% | **4.2%** | 4.6% | 4.0% |
| PAR 90+Restructured loans coverage ratio[15] | **72.7%** | 109.4% | **72.7%** | 84.2% | 109.4% |
| Updated NPLs coverage[16] | **87.4%** | 130.5% | **87.4%** | 93.0% | 130.5% |
| BIS Tier 1[17] | **24.7%** | 24.7% | **24.7%** | 23.4% | 24.7% |
| Total BIS CAR[18] | **31.0%** | 30.4% | **31.0%** | 28.6% | 30.4% |
| NBG Basel II Tier 1 CAR[19] | **12.8%** | 12.4% | **12.8%** | 12.0% | 12.4% |
| NBG Basel II Total CAR[20] | **16.0%** | 15.0% | **16.0%** | 14.8% | 15.0% |

## RATIO DEFINITIONS

1. Return on average total equity (ROAE) equals net income attributable to owners divided by monthly average of total shareholders' equity attributable to the Bank's equity holders for the same period. Pre-provision ROAE excludes all provision charges. Annualised where applicable.
2. Return on average total assets (ROAA) equals net income of the period divided by monthly average total assets for the same period. Pre-provision ROAE excludes all provision charges. Annualised where applicable.
3. 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).
4. Cost of risk equals provision for loan impairment divided by monthly average gross loans and advances to customers. Annualised where applicable.
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets. Annualised where applicable.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers. Annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits. Annualised where applicable.
8. Yields on interest earning assets equals total interest income divided by monthly average interest earning assets. Annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities. Annualised where applicable.
10. Spread equals difference between yields on interest earning assets and cost of funding.
11. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
12. PAR 90+restructured loans to gross loans equal PAR 90 loans plus those restructured loans that are overdue by 90 days or less divided by the gross loan portfolio for the same period.
13. Updated NPLs to gross loans equal loans with 90 days past due on principal or interest payments, and loans with well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.
14. Provision Level to Gross Loans equal loan loss provision divided by the gross loan portfolio for the same period.
15. PAR 90+Restructured loans coverage ratio equal loan loss provision divided by the sum of PAR 90 loans plus those restructured loans that are overdue by 90 days or less.
16. Updated NPLs coverage ratio equal loan loss provision divided by the NPL loans.
17. BIS Tier 1 capital adequacy ratio Tier 1 capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
18. Total BIS CAR equals total capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
19. NBG Basel II Tier 1 CAR equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the NBG Basel II requirements. After adoption of NBG Basel II/III requirements, the Bank also calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2012.
20. NBG Basel II Total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the NBG Basel II requirements. After adoption of NBG Basel II/III requirements, the Bank also calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2012.

## EXCHANGE RATES

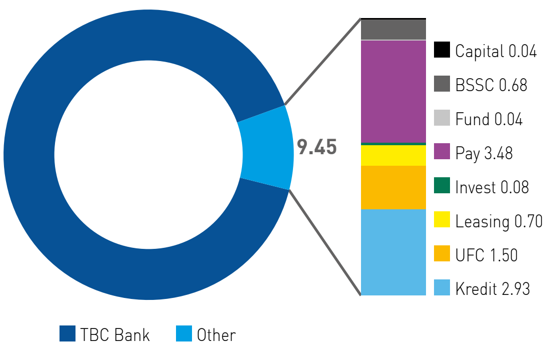
To calculate the Balance Sheet items' QoQ growth without currency exchange rate effect, we used USD/GEL exchange rate of 2.3816 as of 30 September 2015. For calculations of YoY growth without currency exchange rate effect, we used USD/GEL exchange rate of 1.8636 as of 31 December 2014. The USD/GEL exchange rate as of 31 December 2015 equalled 2.3949. For P&L items growth calculations without currency effect, we used the average USD/GEL exchange rate for the following periods: FY 2015 of 2.2702, FY 2014 of 1.7659, Q4 2015 of 2.3979, Q3 2015 of 2.3241 and Q4 2014 of 1.8059.

# PEOPLE

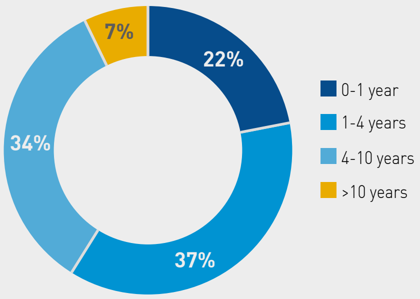
TBC BANK PLACES SPECIAL EMPHASIS ON ITS HIGHLY PROFESSIONAL WORKFORCE, WHICH IS ONE OF ITS KEY COMPETITIVE ADVANTAGES. IN 2015, THE BANK CONTINUED STRENGTHENING ITS CORPORATE CULTURE, DEVELOPING THE PEOPLE WHO INVEST THEIR TIME AND EFFORT IN THE BANK'S SUCCESS, AND PROVIDING THEM WITH INTERESTING OPPORTUNITIES TO GROW WITH THE COMPANY.

At the end of 2015, TBC Bank, together with its subsidiaries, employed 5,262 people, 145 or 3% more than as of the same period in 2014. TBC Bank alone employed 91% of the total workforce. The remaining 9% of our staff were employed by TBC Kredit, TBC Pay, TBC Leasing and other smaller subsidiaries.

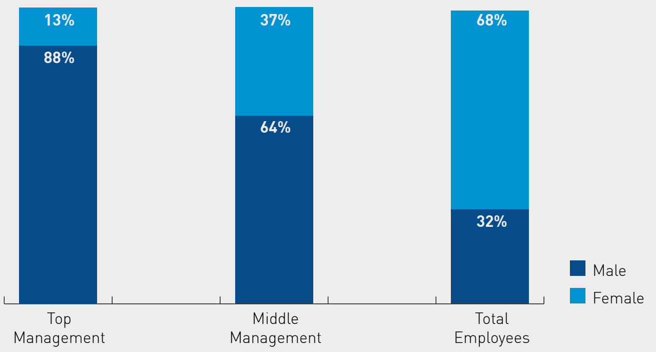
Employee Breakdown by Subsidiary (%)



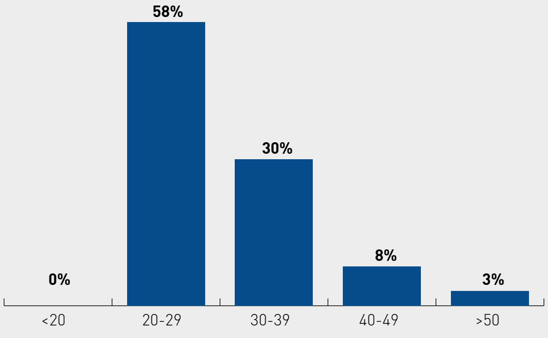

Employee Loyalty (years with TBC)




Leadership at TBC Bank




Age Breakdown



## Turnover by Department

At 11% in 2015, TBC Bank has one of the lowest turn-over rates in the country due to TBC's competitive compensation and benefits policies, career development opportunities and its strategy of internal promotions. A relatively high index in 2015 was due to the merger with the former Bank Constanta. Due to the functional reorganisation and merger of various head office units saw a number of Bank Constant employees
take redundancy.

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| Head office and branches | 7% (153) | 7% (185) | **11% (568)** |
| Finance | 5% (2) | 14% (6) | **30% (14)** |
| Corporate | 13% (6) | 8% (5) | **9% (5)** |
| Retail & SME | 8% (8) | 11% (31) | **12% (38)** |
| Operations | 4% (12) | 3% (13) | **12% (54)** |
| Risks | 9% (7) | 7% (6) | **8% (15)** |
| IT | 12% (14) | 8% (10) | **20% (31)** |
| Micro, Marketing & PR | 0% (0) | 0% (0) | **56% (33)** |
| Branches | 7% (89) | 7% (103) | **15% (361)** |

## Equal Opportunity Employment and Gender Balance

TBC Bank is an equal opportunity employer. As part of our Code of Conduct we do not discriminate in employment decisions based on gender, ethnicity, religion, disability or other protected categories.

### Gender Breakdown of Employees

| | Male | Female |
|---|---|---|
| TBC Bank | 1,527 (32%) | 3,238 (68%) |
| BROKER | 1 | 1 |
| BSSC | 35 | 1 |
| FUND | 1 | 1 |
| PAY | 153 | 30 |
| INVEST | 3 | 1 |
| LEASING | 17 | 20 |
| UFC | 42 | 37 |
| KREDIT | 97 | 57 |

### TBC Bank Employee Breakdown by Gender

| | Male | Female |
|---|---|---|
| All employees | 32% | 68% |

### Leadership in TBC Bank

| | | |
|---|---|---|
| Top Management | 88% | 12% |
| Middle Management | 62% | 38% |
| Supervisory Board | 86% | 14% |

## Performance Assessment and Remuneration

HR has developed an extensive policy to evaluate the professional growth and skills of our employees. Branches and other front office staff have a performance based motivation system (linked to financial and other operational KPIs) that was developed by external consultants.

Certain Head Office staff is evaluated against a Management by Objectives (MBO) system where an employee and the respective manager agree to the goals and objectives that are closely aligned with the broad organisational strategic objectives. The process includes ongoing tracking and biannual feedback on employee achievements. Performance Assessment and final feedback is standardised across the Bank and is based on a uniform scoring system that managers are required to use.

In 2015, TBC Bank adopted a new, three-year compensation system for members of the senior and middle management, developed in partnership with EY.

## Employee Communication and Survey

Regular communication with employees is an integral part of the Bank's corporate culture. TBC ensures that the entire team is up to date with the latest information on the Bank's activities via our executive presentations, TBC magazine, intranet content and different corporate events organised by the HR Department. Since 2014, the Bank has appointed contact persons to maintain smooth communication between branches and the head office. Additionally, a specialised SMS service to the entire staff – TBC Family – also supplements the HR Department's traditional communication channels.

The HR department regularly conducts Employee Satisfaction and Engagement Surveys in order to assess the attitude of our staff members and take actions accordingly. In 2015, the survey was conducted by VU University of Amsterdam, a leading research university in Europe. The latest survey generated an extremely high participation rate with 74% of all employees responding to the questionnaire.

# PEOPLE
CONTINUED

## Employee Benefits Policy

TBC Bank provides various types of non-wage compensation to employees including bonuses, paid annual leave and sick leave, competitive pension and health benefits and non-monetary benefits. TBC Bank highly values its staff and recognises that the Bank's success largely depends on the outstanding performance of its workforce and thus, TBC offers a market-leading employee benefits package.

### Employee Benefits

| Benefit | Granted | Compensation/award |
|---|---|---|
| Health Insurance | After 6 months | Monthly co-payment |
| Pension funds | After 2 years | Monthly co-payment |

### Social Benefits

| | | |
|---|---|---|
| Marriage | After 6 months | By case |
| Childbirth | After 6 months | By case |
| Death of a family member | After 6 months | By case |
| Paid leave and days off | After 11 months | By case |
| International & local MBA, training, seminars | After 1 year | Through competition |

## Employee Training and Leadership Development

TBC Bank's HR Strategy is to have the best employees on the market with high performance and company loyalty. Its HR management system is supported by a tailored IT system to manage personnel through career planning, training and performance evaluations. Since 2013, the Bank implements part of its mandatory and voluntary training programmes through a distance learning system, which allows employees to acquire knowledge and skills at their own pace and at lesser cost to the Bank.

In addition to this, TBC Bank provides internal training programmes via TBC Academy, an in-house educational resource that provides employees an opportunity to acquire knowledge in various banking disciplines and features lecturers from TBC's top and middle management. TBC Academy concentrates on offering learning opportunities in customer service, negotiation skills, conflict resolution, time management, business communication, team building and banking products. Additionally, certain mandatory training programmes are provided to employees based on required skills for their respective departments.

TBC will continue developing new instruments to improve employee qualifications in order to acquire and maintain the best professionals on the market.

## MBA and Qualifications

In addition to in-house training opportunities, TBC Bank provides support to the best employees for external training, financing internationally acknowledged qualifications such as CFA and ACCA as per the departments' requirements.

TBC also operates a scholarship fund, created in 2012, that has already financed 20 middle managers from the Bank who have had their MBAs co-financed both locally as well as internationally.

# CORPORATE RESPONSIBILITY REVIEW

At TBC Bank, we firmly believe in our responsibility to support the community, the environment and the wider stakeholders among which we operate. The Bank organises its CSR Strategy into four main areas: workplace, market place, environment and community. Our community sponsorship program is further broken down into themes of focus that complement our brand and tradition.

## Workplace

TBC Bank is dedicated to creating the best workplace experience for its employees. We offer employees one of the most competitive benefits packages in the country, as well as advanced professional education and training opportunities. Projects implemented for TBC Bank employees include:

- TBC Fund for Employees with Large Families (founded in 2013);
- TBC Academy providing training and workshops in different areas of business and banking free of charge for TBC Bank employees (founded in 2011);
- tuition funding for middle management employees for MBA-level study; and
- full social benefits package, including health insurance, pension schemes, and fully-paid maternity and paternity leave.

These and other matters concerning employee relations are covered in greater detail on page 70.

## Marketplace

TBC Bank has a traditional commitment to supporting small and medium size businesses. We have a track record for attracting dedicated facilities for SME financing – including local currency and sector specific funds for high-priority industries in the country (such as agriculture, healthcare and energy).

Additionally, TBC Bank is the first bank in the region to offer value-added services to its SME clients that include networking, educational and consulting opportunities provided free of charge. These services are implemented through the Bank's pioneering Business Support Programme launched in 2013 with support from IFC and ADB and in partnership with IBM, Ernst & Young and BDO.

The achievements of the Business Support Programme are covered in greater detail on page 33.

## Environment

TBC Bank believes it has one of the most advanced Environmental and Social Risk Management systems in the region. Our ESMS Policy is aligned with the requirements of all relevant recommended best practices. The system has been developed in cooperation with EBRD, IFC, DEG, ADB, and FMO and includes provisions that are often much stricter than national requirements. The Bank also ensures that its clients and sub-contractors comply with international social and environmental standards.

# CORPORATE RESPONSIBILITY REVIEW
## CONTINUED

### ESMS Policy
TBC Bank was one of the first banks in the country to develop an Environmental and Social Risk Management System (ESMS).

The ESMS Policy focuses on the environmental and social issues associated with commercial lending and investments. The main provisions of the ESMS policy are as follows:
- Environmental and social (E&S) risks associated with the Bank's operations, relying on tools like EBRD's Environmental and Social Risk Management Manual, IFC's web-based ES toolkit, FMOs Sectoral Guidelines for Environmental and Social Risk Assessment, IFC's Sustainability Framework and Performance Standards and Guidance Notes, UNEP-FI's Guide to Banking and Sustainability, and ADB's ESMS Template for Banks and Funds.
- Protection of human and labour rights, especially those of vulnerable population groups.

TBC Bank regularly updates the ESMS document, which ensures that the Bank effectively manages environmental and social risks associated with its operations in order to minimise its impact on the environment and its stakeholders.

Full details of TBC Bank's ESMS policy are available on the Bank's Investor Relations website.

### Community
TBC Bank differentiates itself through an impactful, long-term and significant financial commitment to developing culture, art and music in Georgia, as well as by contributing to the maintenance of the Georgian national heritage. Our investment and support in the community has continued with a traditional focus, and took on several new directions in 2015.

Community projects implemented by TBC Bank in 2015 include:
- a support fund for 13 June victims,
- exclusive sponsorship of the Georgian National Rugby Team,
- exclusive sponsorship of the Georgian National Ballet and Opera Theatre,
- an exclusive exhibition of Georgian cultural heritage,
- the major Georgian Literary Award Saba,
- the Saba Electronic Bookstore,
- the first digital TV station Artarea, and
- TBC Art Gallery and TBC Gallery for Young Georgian Artists.

## SUPPORT FUND FOR 13 JUNE VICTIMS

In 2015, Tbilisi, the capital city of Georgia, had to deal with the consequences of serious flood damage, resulting in an estimated GEL 40 million in damage. In support of the families that suffered as a result of the disaster, TBC Bank set up a special fund and donated GEL 50,000 to mitigate some of the material damage incurred by Tbilisi residents. The fund generated the largest public participation ever recorded in the country – with the help of its customers, employees, partners and other stakeholders, the Bank raised over GEL 1 million for the victims of the disaster.

One of the areas most affected by the flood was a small public park, located in the centre of the city. In order to further support the rehabilitation of the city following the 13 June events, TBC Bank donated an additional GEL 50,000 to build a social café in the renovated park.

**#WriteInGeorgian (#წერექართულად)**

TBC Bank has a well-established track-record as a major sponsor of Georgian cultural heritage. We continue to support traditional causes by maintaining, restoring and promoting achievements of historic value for the country.

In 2015, TBC Bank launched a campaign-#WriteinGeorgian-in order to preserve the unique cultural heritage that is the Georgian language. The campaign encourages the use of the Georgian alphabet and Georgian words in everyday and business communication. Projects launched under this initiative include the creation of a Georgian alphabet add-in for iPhones, iPads and Android smartphones, children's alphabet board games and educational materials published through the Bank's innovative e-book store, SABA. In 2015, TBC also sponsored an international art festival Fest i Nova 2015 G-15 that featured local and international modern artists. During the festival, TBC presented a creative installation dedicated to the Georgian language and Georgian alphabet.

**Discovering Young Artists**

The TBC Art Gallery actively presented a number of significant art events to the public throughout 2015. Several innovative exhibitions supported young Georgian artists and offered viewers a new take on contemporary expression. During the year, the TBC Art Gallery and TBC Galleries hosted up to 80 exhibitions. Among these, the Kutaisi branch of TBC Gallery featured the multimedia exhibit "URB EX" by Gio Sumbadze, who explores modern urban cities. The Tbilisi branch of TBC Gallery hosted an installation "My Home", originally created for Vico Vitri Arte, a popular Italian art project. The exhibition united Georgian and foreign artists who explore cultural and national identity through their work.

Additionally, TBC continued many of its traditional projects created to support young Georgian artists through the following initiatives:

# CORPORATE RESPONSIBILITY REVIEW
## CONTINUED

**Ballet**
TBC Bank is the new exclusive sponsor of the Georgian National Ballet and Opera Theatre. The main goal of this partnership is to popularise ballet and implement social and cultural projects. The Georgian National Ballet is the only professional ballet company in Georgia and attracts collaboration from the world's leading artists.

**Ancient Georgian Treasures at TBC Galleries**
TBC Bank continues to showcase unique artifacts of Georgian culture. Our projects raise awareness of the importance of preserving and understanding our unique Georgian heritage.

In 2015, TBC Gallery hosted an exhibition of archeological findings from an ancient Georgian monastery in Cyprus. The monastery is a site-museum in Cyprus and has become a popular tourist destination on the island. The artifacts from the Monastery were virtually unknown to the wider Georgian public and were featured at the TBC Gallery for the first time in an exclusive display. The Bank also continues to support the Oni Local Museum that preserves a unique collection of ancient Georgian openwork bronze buckles featured at TBC Art Gallery in 2014.

**Artarea - www.artarea.tv**
Artarea, the first Georgian TV channel dedicated to art continued to provide viewers with news on the latest developments and achievements in culture and arts. Through Artarea, TBC sponsored 33 public lectures on art and music, 22 concerts, and 13 exhibitions. These events attracted over 5,000 viewers.

**Space for Contemporary Artists**
TBC Bank continued to operate the first digital space dedicated to modern video art titled ART WALL. Located at one of the Bank's branches in the central part of the capital city, the Wall presents open air art shows by established and promising Georgian artists. In 2015, TBC achieved another breakthrough in our customer experience by introducing an innovative, customer-centric branch design, created in partnership with Allen International. In addition to the cutting-edge banking technology, customers are treated to an exclusive exhibition of young artists within our newly branches. Please see page 26 for more information on the innovative branch design developed in partnership with Allen International.

**Promotion of Young Photographers**
In 2015, TBC continued its traditional project first launched in 2004. Kolga, a photo competition for young artists, seeks to discover and promote unknown photographers. The winning pieces were displayed at the Bank's head office.

**Literary Award Saba and SABA Online Bookstore**
TBC continued to support the Saba Literary Awards Programme, one of the most respected and anticipated literary events in the country. TBC Bank founded the program in 2003 with 2015 marking the 14th anniversary of the ceremony. To this date, the Bank has recognised over 90 authors and awarded c. GEL 445,000 in prizes.

SABA online bookstore, available at www.saba.com.ge, is a satellite project to the Awards Programme. The project has been gaining popularity among the local and expatriate communities. The e-bookstore, which also introduced the first Georgian e-reader apps for Android and iOS in 2014, promotes Georgian literature beyond the country's borders and allows new authors to be discovered and promoted. In 2015, SABA e-store traveled to schools around the country, where TBC created small electronic libraries, equipped with tablets and 600 pre-installed e-books.

# SUPPORTING GEORGIAN RUGBY

TBC Bank is the new exclusive sponsor of the Georgian rugby union and has become the main sponsor at all levels of the game in Georgia. The major goal of this partnership is to promote rugby and rugby values in Georgian society, to make rugby an inseparable part of Georgian culture and to increase the popularity of the sport in Georgia, and the region.

Georgia is currently considered a second tier rugby union nation and is one of the world's fastest growing rugby nations in terms of participation. The Georgian National Rugby team have won the European Nations Cup eight times, most recently during the 2015 season. As of 6 April 2015, Georgia is ranked 12th in the world by World Rugby Federation.

See CSR Report for more on our initiatives

# CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

Dear Shareholders,

In October 2015, TBC Bank confirmed its intention to seek a Premium Listing on the London Stock Exchange in 2016. As a public company, we are firmly committed to achieving the standards of corporate governance, which are in accordance with all applicable regulatory requirements, best recommended practice, Basel requirements and the Bank's future development plans.

The Supervisory Board has the ultimate responsibility for the Bank's business, risk strategy and financial soundness, as well as how the Bank organises and governs itself with the goal of ensuring the long-term success of the Bank in order to best serve the needs of shareholders.

In 2015, the Supervisory Board focused on several key issues, including business strategy, corporate governance and risk management. These are discussed in greater detail in our Risk Management Chapter on page 99 and in the Risks, Ethics and Compliance Committee Report on page 93. The Supervisory Board is charged with the responsibility of ensuring that the Bank's Management achieves its strategic objectives. During the year, Management reviewed the Bank's strategy, addressed in greater detail in the Strategic Report on page 14, and confirmed the updated strategy for years 2016-2020.

The Supervisory Board carried out a robust assessment of the principal risks affecting TBC Bank, and these are discussed in greater detail in the Chapter on Principal Risks and Uncertainties in the Strategic Report on page 14. The Supervisory Board reviewed and approved our new Risk Appetite Framework and Risk Appetite Statement, as well as the updated Operation Risks Framework, and the new Risk Management Strategic Initiatives.

We reviewed independence status of our Non-executive Directors. Stefano Marsaglia and Nikoloz Enukidze remain independent. Eric Rajendra and Nicholas Dominic Haag were originally nominated to the Supervisory Board by two of the Bank's shareholder IFIs, IFC and EBRD respectively. The Board, after assessing their links with the respective shareholders, the fact that they have been acting "independent" in letter and spirit on all matters concerning the bank, and how the Board would expect to assess their independence under the key benchmarks of the UK Corporate Governance Code, has deemed them to be independent.

We have initiated search for an additional Independent Director with UK PLC experience, with a view of having him join the Board prior to Premium Listing. This addition will ensure that majority of the Board consists of independent Non-executive Directors.

The Board also discussed appointment of Senior Independent Director (SID) who will be able to provide support on all governance issues and will act as an alternative communication channel between the Chairman and Directors. The SID will also be available to shareholders and other Non-executive Directors to address any concerns or issues. Nikoloz Enukidze will be appointed as the Senior Independent Director

In this Corporate Governance Report, the Bank has prepared a comprehensive review of its corporate governance framework, which includes the Audit Committee Report on page 87, the Supervisory Board Report and Responsibilities on page 79, and the Remuneration Report on page 91. A review of the responsibilities and effectiveness of all committees on the Supervisory Board level begins on page 86.

TBC takes great pride in the fact that it is one of the best and largest employers in the Georgian private sector. The Bank looks to create a working environment where the best people strive to excel in their fields every day. A detailed report on our employee relations is available on page 70.

We believe our advanced corporate governance ensures a fully engaged relationship between our Company and our shareholders and stakeholders. The Bank's comprehensive investor communications programme has allowed its top management to meet with investors and shareholders on four separate roadshows during the 2015 financial year. Moreover, our Investor Relations website offers transparent, accurate and timely information to our investors. More information on the dialogue between TBC Bank and its shareholders is provided on page 199.

Finally, in 2014, the Supervisory Board continued to assess its effectiveness and found that it successfully fulfilled its responsibilities and operated effectively throughout the year.

The following Supervisory Board Report is approved by the Supervisory Board of TBC Bank.

**MAMUKA KHAZARADZE,**
CHAIRMAN OF THE SUPERVISORY BOARD

# DIRECTORS' REPORT

## Supervisory Board Responsibilities

The Bank's governance structure establishes proper incentives for the Supervisory and Management Boards to pursue objectives that are in the interest of the Bank, and effectively manage the relationship between the Management Board, the Supervisory Board, shareholders and other stakeholders.

TBC Bank's corporate governing bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board. A number of appropriate committees have been established at both the Supervisory and Management Board levels.

The General Meeting of Shareholders is the supreme governing body of the Bank, with authority over all key decisions. It elects the Bank's Supervisory Board, which is responsible for the supervision and appointment of members to the Management Board.

The Management Board is responsible for TBC's day-to-day management, with the exception of functions reserved to the General Meeting of Shareholders and the Supervisory Board. The Supervisory Board appoints the members of the Management Board for renewable terms of four years and is also in charge of their dismissal. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each Director must fulfil. The scope of authority of each member of the Management Board is defined by a contract entered into with the Director upon appointment.

The Supervisory Board plays a key role in the Corporate Governance of the Bank. It has ultimate responsibility for the Bank's business, risk strategy and financial soundness, as well as how the Bank organises and governs itself. The Supervisory Board appoints and supervises Management to ensure both the achievement of the Bank's strategic objectives and Management's ongoing response to the risks inherent in the business activities. The Supervisory Board is also responsible for the appointment, evaluation and compensation of the Management Board members.

In addition, the Supervisory Board is responsible for the following specific areas:

- approving purchases or disposals by TBC Bank that exceed 3% of the Bank's equity;
- approving the issuance of procura (general power of attorney) by the management of TBC Bank;
- approving the establishment and liquidation of TBC Bank's branches;
- authorising any borrowing by TBC Bank if such borrowing exceeds 20% of the Bank's equity;
- electing, changing or removing the external auditor;
- approving the listing of TBC Bank's shares on a stock exchange;
- approving investments by TBC Bank, which exceed an aggregate total amount of USD 1 million;
- approving any sale, lease, exchange, transfer, pledge, contribution or other disposition of the assets of TBC Bank and certain of its subsidiaries exceeding 5% of the book value of TBC Bank;
- approving disposals of TBC Bank's assets, which exceed 5% of the Bank's equity;
- approving TBC Bank's financial indicators for the following year, including its business plan or annual budget; and
- approving the entering into related party transactions above USD 100,000.

Full responsibilities of the Supervisory Board are detailed in the Board Regulation, available through the Investor Relations website.

The Supervisory Board consists of seven members elected by the General Meeting of Shareholders for a term of four years each. The Chairman and the Deputy Chairman of the Supervisory Board are elected by a simple majority of votes. The Chairman of the Supervisory Board may not simultaneously hold the position of Chief Executive Officer of TBC Bank. The following table provides details on the Supervisory Board members and their respective appointment year. The composition of the Board has not changed during the financial year 2015.

## Supervisory Board Composition

| Name | Position | Initial Year of Appointment | Current Terms Year of Appointment | Current Terms Year of Expiration |
|---|---|---|---|---|
| Mamuka Khazaradze | Chairman of the Supervisory Board | 1992 | 2013 | 2017 |
| Badri Japaridze | Vice-Chairman of the Supervisory Board | 1992 | 2013 | 2017 |
| Eric J. Rajendra | Member | 2010 | 2014 | 2018 |
| Irina Schmidt[1] | Independent Member | 2012 | 2012 | 2016 |
| Nicholas Dominic Haag | Independent Member | 2013 | 2013 | 2017 |
| Stefano Marsaglia | Independent Member | 2014 | 2014 | 2018 |
| Nikoloz Enukidze[2] | Independent Member | 2013 | 2013 | 2017 |

1. The term for Irina Schmidt expired in June 2016. Ms. Schmidt is being replaced by one more Independent Board member.
2. Supervisory Board has nominated Nikoloz Enukidze to become the Senior Independent Member of the Board.

Biographies for members of the Supervisory Board currently in office can be found on pages 83 – 85. TBC Bank Supervisory Board includes four independent members in line with the Bank's commitment to high standards of corporate governance.

# DIRECTORS' REPORT
## CONTINUED

In 2015, the Supervisory Board met 79 times: five in person and on 74 additional occasions to discuss relevant items via email and teleconference.

| Name | Scheduled Meetings Eligible To Attend | Scheduled Meetings Attended | Extraordinary Meeting Eligible To Participate | Extraordinary Meeting Participated |
|---|---|---|---|---|
| **Chairman** | | | | |
| Mamuka Khazaradze | 5 | 4 | 74 | 74 |
| **Deputy Chairman** | | | | |
| Badri Japaridze | 5 | 5 | 74 | 74 |
| **Non-executive Directors** | | | | |
| Eric J. Rajendra | 5 | 5 | 74 | 74 |
| Irina Schmidt | 5 | 5 | 74 | 74 |
| Nicholas Dominic Haag | 5 | 5 | 74 | 74 |
| **Independent Members** | | | | |
| Nikoloz Enukidze | 5 | 5 | 74 | 74 |
| Stefano Marsaglia | 5 | 3 | 74 | 74 |
| **Company Secretary** | | | | |
| Irma Dvali | | | | |

**Application of the Georgian Corporate Governance Code for Commercial Banks**
TBC is party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which was drafted with the guidance of the IFC, one of the Bank's shareholders, based on internationally recognised principles of good corporate governance. Compliance with the CG Code for Commercial Banks is not mandatory; however, in February 2014 TBC revised its internal regulations to ensure compliance with the CG Code and since then, TBC has complied with all relevant provisions set out in the above Code.

### Supervisory Board Performance in 2015

In addition to the regular functions described above, the following list highlights how the Board spent its time in 2015:

**Strategy and Budget**
- continued to monitor the Bank's achievement of strategic objectives;
- continued to monitor the Banks achievement of its budget;
- discussed and approved the revised budget for 2015 as well as a high level budget for 2015-2019;
- discussed and approved the updated Strategy of the Bank for the 2016-2020 period;

**Premium Listing**
- discussed TBC Bank's plan to move to the premium segment on the London Stock Exchange, including all the requirements, estimated costs, timing and the benefits of the move, as well as current macroeconomic conditions and relevant peer examples;
- approved the plan to move to the premium segment before the end of 2016;
- discussed and approved financial advisors for the premium listing;
- approved the engagement of the Bank's external auditor, PwC, for the premium listing-related non-audit services;
- closely monitored the progress of the premium listing; and
- discussed presentations and updates of the premium listing;

**Corporate Governance**
- discussed and approved the changes to the Management Board Regulation;
- discussed and approved the changes to the Supervisory Board Charter;
- reviewed and approved amendments to the Audit Committee Policy
- approved the corporate governance and nomination training to be held in March 2016; and
- discussed and approved reappointment of the Management Board members.

**Risk Management**
- discussed and Approved new Risk Management Strategic Initiatives, updated Risk Appetites Statement and Risk Appetite Statement;
- reviewed feedback from the NBG on the Bank's ICAAP document and the NBG annual management board letter;
- approved an updated Policy on Anti-money Laundering and Anti-corruption Standards;
- reviewed and approved the updated Liquidity policy, FX Risk Policy and IRR Policy; and
- reviewed and approved the Bank's Operation Risks Framework.

**Management Compensation**
- discussed and approved the "Senior Management Compensation System 2015-2018" (including its appendix 1), replacing the existing "Senior Management Compensation System 2013-2015" of June 2013; and discussed and approved the Middle Management Long-Term Incentive scheme.

The Board worked on other ongoing matters as prescribed under its roles and responsibilities

## Succession Planning and Appointments

TBC Bank looks to ensure that the Supervisory and Management Boards consist of highly qualified and skilled members. Policies on the appointment, Term of Office and Resignation of the Supervisory Board Members are provided in Article 2 of the Supervisory Board Regulation. The responsibility to seek and recommend appropriate candidates for Supervisory and Management Board positions, as well as to draft and recommend the Succession Planning policy of the Bank, rests with the Corporate Governance and Nomination Committee. Succession Planning Policy is provided in the Nomination Committee performance review on page 81.

## Conflicts of Interest

The Charter and The Supervisory Board Regulation incorporate relevant provisions on conflicts of interest for the Board members for appropriate disclosures and approvals. These requirements were fully complied with during 2015.

## Principal Activities of the Company

The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

Additional information to be considered as part of this Report is presented in the following sections:



## Dividend Pay-out Recommended by the Board

On 19 May 2015, the General Meeting of Shareholders approved a distribution in the amount of GEL 39,362,724.87 (gross of taxes) to the shareholders (equivalent to 25% of TBC Bank's net profit), which was paid on 2 June 2015. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net income for the previous year as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution. The dividend for this year is set at 25% and is subject to shareholders' approval.

## Indemnity Provision

TBC Bank Directors and Officers are eligible for indemnity provision that includes liability cover from claims that may arise as a result of decisions and actions taken within the scope of their regular duties. The Bank's insurance policy also contains special excess protection for Supervisory Board Members, who may not be eligible for the same indemnities as Management Board Members and other officers.

## Political Donations

There were no political donations made during the year 2015.

## Risk information on Financial Instruments

Descriptions of all relevant risk management policies are available in Note 35 to the Audited Consolidated Financial Statements of the Bank and approved by the Supervisory Board.

## Post-Balance Sheet Events

There have been no post-balance sheet events.

## Likely Future Developments in the Business

Likely future developments in the business of the Bank are discussed in the Strategic Report, available on page 14.

## Research and Development in the Business

TBC Bank continuously updates, develops and researches new and existing products and services for all of its business lines as part of its regular course of operations.

## Branches Outside the UK

TBC provides a wide range of banking and financial services through 128 branches and offices in Georgia and through its affiliates, including seven in Azerbaijan and an affiliate office in Israel.

## Acquisition of Own Shares

TBC Bank has not conducted an acquisition of its own shares.

## Employees

### Disability

TBC Bank gives equal opportunity and creates conditions for employment and career growth to disabled candidates and employees.

Career development and training opportunities are provided to disabled employees at an equal level and scope with all necessary adjustments to fit the special needs of our colleagues.

### Employee Involvement

TBC Bank regularly communicates to its employees, providing information on the Bank and its activities, including in relation to financial and economic factors affecting the Bank's performance, and receiving regular feedback from all staff. The Bank implements top-down communication from Supervisory Board to the Management Board and middle management and then to employees using executive presentations, corporate news magazines, intranet content, and various employee appreciation and motivation events organised by the Human Resources department.

In order to accurately assess the attitude and experience of employees, the HR department conducts regular Employee Satisfaction and Engagement Surveys each year, which among other things monitor staff engagement and loyalty. The results are discussed and appropriate action plans are set by the management each year.

Apart from the base salary and additional cash incentives, both the Management Board members and key members of the middle management enjoy bonuses awarded in the form of the Bank's shares under the Long-Term Incentive Plan (LTIP).

# DIRECTORS' REPORT
## CONTINUED

The Shares are allocated to eligible members on the basis of their performance and performance of their teams. The number of shares allocated depends on delivery against relevant KPIs. Shares are allocated each year, following publication of the audit report.

### Company's Capital Structure

As of 31 December 2015, the authorised capital of the Bank is GEL 22,482,611 (twenty two million four hundred eighty two thousand six hundred and eleven Lari). Equity attributable to the owners of the Bank is GEL 1,211,260,000 (one billion two hundred and eleven million two hundred sixty thousand). Total Capital Per Basel III local regulation is GEL 1.199 billion. There are 56,206,527 shares authorised and. As of 31 March 2016, 50,054,919[1] shares out of the authorised shares are issued and fully paid.

Shares granted and not vested to the top management and middle management of the Bank as part of the LTIP described above, do not have voting rights until vesting conditions are met.

Significant ultimate owners of the shares of the bank are Mamuka Khazaradze and Badri Japaridze holding 14.8% and 7.4%, respectively. They hold shares both directly in the capital of the Bank and through SPVs. For their biographies please see page 94.

The rights attached to shares awarded under the LTIP described above, are subject to the condition of continuous employment. Initially, shares are subject to restrictions on sale and transfer to any party and do not provide for voting rights, but they are eligible for dividends. After one year of continuous employment from the date of registration of the shares in the name of the beneficiary, restrictions are removed with respect to 10% of the shares awarded, after two years, the restrictions are removed with respect to another 10% of the shares, and after three years all shares become free from restrictions.

The LTIP also provides additional provisions governing entitlement to shares and obligations to return the shares in case of termination or expiry of service contract or employment contract.

The powers of the Supervisory Board and AGM, including in relation to the issue or buy back of the Company's shares, are set out in the relevant Georgian Law and the Charter of TBC Bank.

### Securities Carrying Special Rights

There are no securities carrying special rights with regard to control of the Company.

### Restrictions on Voting Rights

Shares granted and not vested to the top management and middle management of the Bank as part of the LTIP described above, do not have voting rights until vesting conditions are met. As of 31 March 2016, these shares represented 2.1%[1] of the issued and paid shares of TBC Bank.

There are no restrictions on voting rights, except that the employees cannot enjoy the rights on the shares under the employee share scheme until the shares are vested.

1. The number reflects the grant of bonus shares to a number of senior employees of TBC Bank, in line with the Bank's Long-Term Incentive Plan, conducted on 17 March 2016.

### Appointment and Replacement of Directors

The General Meeting of Shareholders is authorised, by a simple majority of votes, to amend the articles of the Bank and to appoint or replace the Directors.

### Change of Control

Contracts with most of the Bank's lenders usually contain a change of control clause which usually requires the lenders consent before the change of control occurs. Contracts with top management contain a special provision for increased compensation if the loss of office occurs because of a change of control.

### Going Concern Basis

The Directors confirm that they consider it appropriate to adopt the going concern basis of accounting, and there are no material uncertainties to the Bank's ability to continue to do so for the foreseeable future from the date of approval of the financial statements.

### Risk Management and Internal Control

The Supervisory Board is responsible for the effectiveness of the risk management and internal control in TBC Bank. TBC Bank has identified major risks faced by the Bank, has determined the Bank's risk appetite and developed a risk strategy. Key risks faced by the Bank are Credit risk, Operational risk, Market risk, Liquidity risk, Interest Rate risk on banking book, Strategic and Reputational Risks.

Management has set up control system in order to ensure that key risks are properly managed and mitigated. A number of policies are approved at Supervisory Board level. Key performance metrics are regularly reported to the Supervisory Board and/or to the Risk, Ethics and Compliance Committee.

In accordance with Basel II Pillar 2 and 3 requirements, the Bank performed in depth Internal Capital Adequacy Assessment Process (ICAAP); the Supervisory Board and Risk, Ethics and Compliance Committee are actively involved in debating the output document. The next updated ICAAP document is planned to be submitted to the National Bank of Georgia for further review during the year 2016.

Further information on the Bank's risk management is available in the Risk Management Report on page 99.

### Responsibility of the Supervisory Board

The members of the Supervisory Board confirm their engagement in preparing the annual report and accounts in conformity with the detailed responsibilities provided in Article 10 of the Georgian Supervisory Board Regulation, and state that they consider the report and accounts, taken as a whole, as fair, balanced and understandable and provide the information necessary for shareholders to assess the Bank's performance, business model and strategy. The Independent Auditor's Report is available on page 113.

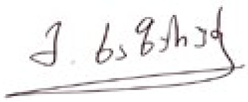
Each of the members of the Supervisory Board, whose names and functions are listed on pages 84 – 85, confirm that, to the best of their knowledge and belief:

b. the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of TBC Bank and the undertakings included in the consolidation taken as a whole; and

c. the management report includes a fair review of the development and performance of the business and the position of TBC Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The members of the Supervisory Board confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and the Directors have taken all steps that they ought to have taken as a member of the Supervisory Board in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Supervisory Board,



**MAMUKA KHAZARADZE**
CHAIRMAN OF THE SUPERVISORY BOARD

## Members of the Supervisory Board

**MAMUKA KHAZARADZE**
CHAIRMAN OF THE SUPERVISORY BOARD
Mr Khazaradze graduated from the Technical University of Georgia in 1988 and also holds a diploma from Harvard Business School. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1991 and 1992, respectively, he founded and became the President of TBC Bank. In 1995 he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of President until 2004, and between 1999 and 2002, he acted as Vice Chairman of the Supervisory Board of Microfinance Bank of Georgia. In 2004, Mr Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the President. Between 1997 and 2007, he was also Vice President of the Olympic Committee of Georgia. Since 2000 he has been a partner and the President of NGO New Movement, and since 2010 has served as the Chairman of the Board of the American Academy in Tbilisi and the Chairman of the Supervisory Board of Lisi Lake Development. In 2014, Mr Khazaradze was recognised as Entrepreneur of the Year in Georgia by Ernst & Young, the year this prestigious awards programme was launched in the country. Mr Khazaradze has been the Chairman of the Supervisory Board since TBC Bank's incorporation in 1992.

**BADRI JAPARIDZE**
DEPUTY CHAIRMAN OF THE SUPERVISORY BOARD
Mr Japaridze graduated from the faculty of psychology of Tbilisi State University in 1982 and also holds a postgraduate qualification from the Faculty of Psychology of Moscow State University. In 2001 he also completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of the Parliament of Georgia. In 1992, he was appointed as Head of the Foreign Relations Department at TBC Bank and was appointed as Vice President of TBC Bank in 1993. In 1996, he was elected as Chairman of the Board of TBC TV LLC, a position he still retains. Since 1995, he has held the position of Vice President of IDS Borjomi Georgia, a Georgian Branch of IDS Borjomi Beverages Co.N.V., of which he is a co-founder, and acted as a member of the Board of that company between 2004 and 2010. In 1995, Mr Japaridze was elected to TBC Bank's Supervisory Board and has held the position of Vice Chairman of the Supervisory Board since 1996. Since 2004, he has also acted as a member of the Supervisory Board of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is co-founder. Mr Japaridze was elected to the Supervisory Board of the EU-Georgian Business Council in 2006 and later became the Vice Chairman. In 2008, he was elected to the Supervisory Board of Geoplant, a position he retains today. Mr Japaridze is also the Chairman of the Supervisory Board of TBC Kredit and the Vice Chairman of the Supervisory Board of TBC Leasing.

# DIRECTORS' REPORT
## CONTINUED

**ERIC J. RAJENDRA**
MEMBER OF THE SUPERVISORY BOARD
Mr Rajendra graduated from Brandeis University (BA), earned his MA at the Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of Financial Markets and institutions. Mr Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an Adjunct Professor of Strategy at INSEAD. During 2005-2014, he held the position of Senior Advisor to the IFC and has served as a Board Director or Consulting Advisor on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a Vice President at Capgemini and a Vice President at Electronic Data Systems; in both institutions he was a key leader of the financial services practice. From 2010 to 2012 he was a member of the Board of Directors at Orient Express Bank. During 2006-2014 he was a member of the Board of Directors of LOCKO-Bank, where he is also the Chairman of the Audit and Risk Committee. He started his career as a banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company. Mr Rajendra was appointed to the Supervisory Board in 2010.

**IRINA SCHMIDT**
MEMBER OF THE SUPERVISORY BOARD
Ms Schmidt graduated from St. Petersburg State University with a degree in Foreign Languages and Literature in 1994 and obtained DES from Geneva University in 1999 and an MBA from Europa-Institut (Saarland University) in 2001. Since 2001, Ms. Schmidt has held a number of positions in DEG, including Investment Manager and Senior Investment Manager with Power of Attorney (procura). Since 2007, Ms Schmidt has served as a Vice President of DEG in Europe/Middle East/Central Asia with responsibility for new business development, project evaluation and the management of DEG's portfolio in the Caucasus region. Since 2012 she has been a Board member of Bank Respublika in Azerbaijan. Ms Schmidt was appointed to the Supervisory Board (as the nominee for DEG) in 2012.

**NIKOLOZ ENUKIDZE**
INDEPENDENT MEMBER OF THE SUPERVISORY BOARD
Mr 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 DOMINIC HAAG**

MEMBER OF THE SUPERVISORY BOARD

Mr Haag earned an MA 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 specialising in capital raisings and stock exchange flotations. 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.

**STEFANO MARSAGLIA**

INDEPENDENT MEMBER OF THE SUPERVISORY BOARD

Mr Marsaglia graduated from Turin University with a degree in Economics and Commerce in 1978. Mr Marsaglia has 35 years of experience in the financial services industry with particular expertise in corporate and investment banking in Europe and Latin America. In 1987, he was appointed Deputy Managing Director and Head of Investment Banking for Southern Europe at UBS and served as Assistant Director at Morgan Grenfell from 1983 to 1987. Mr Masaglia acted as Managing Director, Global Head of Financial Institutions and Co-Head of Investment Banking for Europe at Rothschild between 1992 and 2010, and as the Chairman of Global Financial Institutions of the Investment Banking Division at Barclays Bank, London between 2010 and 2014. Mr Masaglia currently serves as Executive Chairman of Corporate and Investment Banking at Mediobanca, London. Mr Marsaglia was appointed to the Supervisory Board in 2014.

# SUPERVISORY BOARD COMMITTEES

In line with international standards of best practice, Basel requirements, and the Bank's future development plans, TBC Bank has established several committees; the **Risks, Ethics and Compliance Committee, Remuneration Committee, Corporate Governance and Nomination Committee** and **Audit Committee.**

These Committees assist the Supervisory Board and the Bank in improving the structures and processes in place for managing the Bank, the relationship between the Management, the Supervisory Board, shareholders, and other stakeholders. Please find the respective Committee Reports on the following pages:



The following table sets out Supervisory Board Committee membership:

| Outside Directors | Audit Committee | Remuneration Committee | Corporate Governance and Nomination Committee | Risks, Ethics and Compliance Committee |
|---|---|---|---|---|
| Badri Japaridze | | | Member | Member |
| Eric J. Rajendra | Member | Member | Chairperson | |
| Irina Schmidt | | Chairperson | Member | Member |
| Nicholas Dominic Haag | Chairperson | Member | | Member |
| Nikoloz Enukidze | Member | Member | Member | Chairperson |
| Stefano Marsaglia | Member | | | |

**Chairperson**

**Member**

# AUDIT COMMITTEE REPORT

## Committee Membership and Qualifications

The Committee continued in 2015 to comprise four Non-executive Directors of whom two are independent NEDs, Nikoloz Enukidze and Stefano Marsaglia. Nikoloz has in the past been Chairman of Bank of Georgia and Stefano is Chairman of investment banking at Mediobanca. The other two committee members, Eric Rajendra and myself, were originally nominated to the Supervisory Board by two of the Bank's shareholder IFIs, IFC and EBRD respectively. The Board, after assessing our links with the respective shareholders, the fact that we have been acting "independent" in letter and spirit on all matters concerning the Bank, and how the Board would expect to assess our independence under the key benchmarks of the UK Corporate Governance Code, has deemed us to be independent.

All current members of the Committee (see biographies on pages 84 – 85 of the Annual Report) possess a detailed understanding of the financial sector, with backgrounds primarily in banking, and most have served on (or chaired) other banks' audit and also risk committees. The Committee therefore has sufficient recent and relevant expertise to operate effectively and calls upon other expert internal and external resources when required.

The Audit Committee is acutely aware of the even higher standards expected of the Bank's disclosure, record-keeping and controls associated with its intended Premium Listing and will continue to work to ensure these are fully met and maintained.

## Committee Role and Meetings

The Audit Committee, which holds delegated authority from the Supervisory Board and powers explicitly attributed to it by Law, has multiple areas of responsibility and focus. Its first priority is to ensure the integrity (accuracy and full disclosure) of the Bank's financial reporting, looking hardest at areas of reporting risk, supervising the proper interpretation of accounting rules. Second, the Committee oversees the Bank's systems of internal control in relation to financial reporting, fraud and compliance with prevailing laws and regulations, also evaluating management's competence in this task. The Committee relies heavily on Internal Audit to provide an objective and professionally sceptical view of how the Bank is handling a number of key reporting and record-keeping tasks. The Committee also makes recommendations on the appointment and remuneration of external auditors and seeks to maximise the value of the external audit relationship.

In relation to Risk, the Bank has a separate Risk Committee (which Nikoloz Enukidze chairs and of which I am a member) and, while there are areas of overlap (e.g. in relation to operational risk), the two committees each have defined responsibilities and cooperate extensively to minimise duplication and ensure nothing is overlooked. Under forthcoming accounting rule changes, in particular IFRS9, the work of the Audit and Risk committees of banks in general will share many of the same complex issues of judgement and policy.

The Bank continues to grow with the Georgian economy and is accumulating market share in certain key areas. Nevertheless, the Audit Committee is conscious of the "macro" headwinds facing the global and regional economy which does not leave Georgia unscathed. Therefore, the Audit Committee remains more vigilant than ever in seeking, with the help of external and internal auditors as well as management, to ensure in critical areas, such as the calculation of loan impairments, the accuracy at particular points in time of our financial releases and internal records. The more challenging economic context also potentially raises the operational risks within the Bank and again these are being closely monitored. One initiative planned for 2016 is the implementation of a "whistleblowing" or anonymous hotline for staff or external entities to alert the Bank to any potentially unsatisfactory practices.

The Committee met formally in person in each quarter of 2015 (March, June, September, December), in accordance with the Bank's quarterly financial reporting cycle and the cycle of Supervisory Board meetings. There were regular interim telephone meetings, mostly around planned releases of financial data, and also ad hoc communications between members and with Internal Audit, external auditors and management.

# AUDIT COMMITTEE REPORT
## CONTINUED

The table below describes the committee composition and formal meeting attendance for 2015:

### Audit Committee Composition

| Name | Position | Year of Appointment | Scheduled Meetings Eligible To Attend | Scheduled Meetings Attended | Additional Meetings Eligible to Attend | Additional Meetings Attended |
|---|---|---|---|---|---|---|
| Nicholas Dominic Haag | Chairman | 2013 | 4 | 4 | 9 | 9 |
| Eric J. Rajendra | Member | 2012 | 4 | 4 | 9 | 9 |
| Nikoloz Enukidze | Member | 2014 | 4 | 4 | 9 | 9 |
| Stefano Marsaglia | Member | 2014 | 4 | 2 | 9 | 8 |

The Bank's CEO, CFO and other Management Board members (in particular the CRO) were on occasion invited to participate in Audit Committee meetings together routinely with the Head of Internal Audit. Minuted meetings generally took place on the day prior to Supervisory Board meetings and the Audit Committee made a formal report as a separate agenda item in the latter, this also being minuted.

The Audit Committee Policy of the Bank is set out on TBC's internet web site at the IR Website

This Policy document was last reviewed, amended and agreed by the Committee in February 2014 and approved by the Board in March 2015.

**Assessment of Effectiveness**
The Audit Committee Effectiveness Review is conducted every year by the Board and the individual Committee members in order to assess the Audit Committee's performance, as per international best practice standards.

The review conducted for the year 2015 was completed in March 2016 and concluded that the Committee operates effectively and carries out all its responsibilities as laid out in its Charter.

**Planning and Release of Financial Statements**
Since 2014 (and IPO) the Audit Committee assumed the role of comprehensively pre-vetting all audited and auditor-reviewed financial releases. Accordingly, the Audit Committee reviewed during the year the releases of half-year and full-year financial statements, making recommendations to the Supervisory Board to approve these. The Committee also had pre-release sight of the third quarter results and held discussions with management about each of these releases, typically with a multi-stage drafting, review and approval process. The Audit Committee has reviewed all data and narrative comment and concluded that the full year financial statements are complete, clear, balanced and consistent with the Committee's understanding of the facts. Likewise, we considered and are satisfied with transparency on the Bank's liquidity and capital adequacy statements.

The Audit Committee held multiple audit planning meetings with PwC in 2015, commencing formal audit planning in June. The Audit Committee had the opportunity, without management present, to highlight areas it wished the external audit to focus on, flagging relevant issues and trends. The Committee has evolved towards a policy of regular quarterly face to face status discussions with PwC as part of its formal Audit Committee meeting agendas, proactively and mutually addressing any material audit or control issues. PwC has started to attend not only Audit Committee but also parts of Supervisory Board, as well as Management Board, meetings. In addition, as Chairman of the Audit Committee, I have regular, candid and free-form private sessions with PwC also between Committee and Board meetings. In recent meetings with PwC, in addition to discussion around valuation of fixed assets, impairment of intangible assets and other topics, we have focused on the Bank's new methodology for calculating loan impairments and provisioning and on the interpretation of, preparedness for and implications of IFRS 9 on banks in general. The Bank has embarked on a tender to select an adviser to assist it on preparing for implementation of IFRS 9 and to ensure that we are in a position as soon as possible to guide investors and other key constituencies on these important changes and what they may mean for the Bank.

### Other Areas of Audit Committee Focus
We have assessed the reasonableness and appropriateness of critical accounting policies. The main area of accounting judgment involved the valuation of loans issued and related impairment charges and loan loss provisions.

The Bank revised the accounting treatment of its portfolio of investment securities. These changes are described in detail in the financial statements. The investments that the Bank intends and has the ability to hold to maturity are now classified as Bonds Carried at Amortised Cost in the Consolidated Statement of Financial Position, some GEL 372 million of such securities being recorded at year end, the vast majority being Ministry of Finance Treasury Bills. In accordance with IAS 39, these investments were moved from the Available for Sale category to Loans and Receivables category. The Audit Committee discussed this change, also with PwC, and is satisfied that it meets best practice disclosure and gives extra clarity on the composition and purpose of the portfolio.

The most significant change in the Bank's accounting estimates over 2015 was the implementation of the Bank's new provisioning policy and definition of non-performing loans. The Audit Committee has worked closely alongside the Risk Committee and members of the Management Board (in particular the Bank's Chief Risk Officer) in designing and implementing the Bank's enhanced loan loss provisioning methodology with detailed advice from a specialist external adviser, Deloitte. The Audit Committee believes that this policy is now more accurate in assessing impairments of the loan portfolio, benefiting from more granular segmentation of the portfolio and comprehensive assessment of risk parameters for different loan segments, (calculated over three years of historic data). The Audit Committee notes that loan provisioning has risen from GEL 150 million to GEL 194 million over the course of 2015 and this latter sum would have been GEL 5.6 million higher under the previous provisioning methodology. The Audit Committee is satisfied, based on a review of the new methodology, questions posed to the Finance and Risk teams and conversations with external auditors, that this presents a realistic picture of the credit status of the Bank's loan portfolio. The Bank has also moved to a revised and more market-typical definition of non performing loans as loans 90 days+ past due or loans with underlying well-defined weaknesses regardless of the existence of any past-due amount or of the number of days past due. Audit Committee believes that this definition is more meaningful than the one the Bank previously used. The Audit Committee, benefiting from work streams led by the Risk Committee, continues to monitor on a regular basis major individually-assessed loans on the Bank's watch list and collectively-assessed loans including those that are less than 90 days past due (and not yet classified as impaired) to calibrate any deterioration of credit quality that may feed through into impairments.

The Audit Committee has also paid close attention to the changes in the reporting and operational segmentation of the Bank's different businesses and clients, an evolution partly designed to reflect the Bank's integration of Bank Constanta. Certain borrowers and depositors have been recategorised from the Retail segment to the Micro segment. The Audit Committee is satisfied that this presents a realistic view of the Bank's different businesses and is supported by changes to the Bank's management structures.

In 2015 the Bank carried out a revaluation of its own-use Land, Premises and Construction in Progress and investment property (for disclosure purposes) which resulted in some significant valuation increases. Baker Tilly was involved in this process. The Audit Committee is satisfied that reported increases in valuation were validated by a credible external specialist, this being the first external revaluation of Land, Premises and Construction in Progress since 2012, and used a process based on the real market valuation of equivalent assets adjusted for the specifics of our portfolio versus these benchmarks.

In 2015 Audit Committee undertook for the first time a review of the Bank's internal tax department. We interviewed this unit to satisfy ourselves on the adequacy of their resourcing, governance and quality of personnel. We investigated the key tax issues, scope for process automation and real time tax reporting in this area as well as their ability to forecast tax. We concluded that this unit is fit for purpose, is not overcomplicated by multiple tax jurisdictions and is in compliance with the Bank's tax obligations.

## Internal Audit and Control Environment

The Audit Committee meets regularly with the Head of Internal Audit with no management present, and benefits from the department's objective assurance and insights. As Chairman of the Committee, I am in at least monthly contact with the Head of Internal Audit. The Committee routinely reviews Internal Audit's annual and rolling three year plan, provides feedback on it and authorises any changes to its scope. We provide targets for and formal assessment of Internal Audit and ensure that it is effective, suitably embedded in the organisation and respected by management and of use to them. The head of Internal Audit now routinely attends monthly Management Board meetings. Audit Committee solely determines Internal Audit's budget and compensation. We are satisfied that Internal Audit has sufficient resources to perform its role and Audit Committee has where necessary requested additional funds for Internal Audit to purchase the training and tools necessary for it to function effectively.

We have extended the remit of Internal Audit. Internal Audit now undertakes its own assessment of financial and regulatory reporting to give the Committee (and management) further assurance on the integrity of our reported numbers. We have also asked Internal Audit to assess, in the second half of 2016, the adequacy and effectiveness of the Bank's revised risk management framework to ensure that it is being implemented according to plan. Internal Audit has expanded its role to include the internal audit of branches previously within Constanta Bank (which used to have its own internal audit function). Internal Audit played an important role in 2015 in the investigation of a couple of internal fraud cases. As soon as these frauds came to light, Internal Audit escalated them to the Audit Committee (and to Bank management) in accordance with newly-refined escalation procedures. procedures and the consequences were calibrated and contained.

Audit Committee has increasingly organised Internal Audit's plan to be risk-weighted (i.e. investigate the higher risk priorities more frequently and in greater depth) and also more flexible, allowing it to conduct one-off projects where the Supervisory or Management Boards wish it to undertake special investigations arising from situations where the Bank may have heightened vulnerability. Internal Audit plans to invest in specialist software and has down-selected a preferred vendor to speed up some of its more routine tasks, allowing it to concentrate on its most added-value missions.

# AUDIT COMMITTEE REPORT
## CONTINUED

As usual, we have reviewed the robustness of the Bank's controls, working with external auditors and also with Internal Audit to track closely any identified shortcomings and scrutinising remediation follow-up with vintage analyses being carefully maintained. KPIs in respect of the reduction of deficiencies identified by internal audit, however minor, continue to be cascaded down to branch and departmental level and also included in KPIs for members of the Management Board. Audit Committee regularly reviews progress in this vital discipline and alerts the Chairman of the Management Board, Divisional heads and the full Supervisory Board where it occasionally sees intractable problems and insufficient effort at continuous process improvement. The Audit Committee was pleased to note that in 2015 there was an improvement in the rate of remediation of deficiencies identified by internal audit. Audit Committee has asked Management and Internal Audit to ensure that the operational standards of previous Constanta Bank branches, whilst improving, are brought up to the high level existing in the rest of the Group. We have also asked Internal Audit to monitor more regularly the control standards in all subsidiaries of the Group, in particular at TBC Kredit in Azerbaijan given the deteriorating economy in this country.

In 2015 the Bank undertook a review of the information security resilience of the Bank, with the help of a specialist external adviser. This has brought to light a number of areas for improvement. Audit Committee is very focused on in particular cyber security and access control within the Bank, these areas being subject to special ongoing review with the head of the Bank's IT Division delegated to lead the improvement process. A specialist IT internal auditor was hired and has already extensively reported and will continue to do so. We have also asked our external auditor PwC to probe the Bank's information technology systems general controls and fraud risk assessment procedures to the extent necessary for its annual financial audit process.

Audit Committee has sought to involve all Management Board members in contributing to Internal Audit's 2016 audit plan by identifying all key processes under individuals' supervision and ranking them in a priority-based hierarchy. The intention is to use this as a double check to ensure that Internal Audit and the Audit Committee are properly aware of all processes and risk areas within the Bank and to drive risk-awareness, accountability and involvement for all members of senior management.

### External Auditor Independence and Reappointment

The Audit Committee is responsible for the assessment of the performance, objectivity and independence of the external auditor and the delivery of a quality audit. Each year the Audit Committee is required to consider the re-appointment of the auditors, the suitability of the lead engagement partner as well as the wider audit team and the remuneration and terms of engagement for the chosen auditor.  2015 has been the eighth year in which PwC has audited the Bank. We remain satisfied that PwC continues to offer an independent, professional and cost-effective service. We reached this decision on the basis of their openness to challenge, our perception of their proper independence from management, the very low level of prior year financial restatements and PwC's proven ability to meet our tight reporting deadlines. It is the Committee's current intention, subject to suitable contract terms, to recommend that we proceed with PwC for the year 2016 audit, after which we will consider whether it would be appropriate to conduct an external audit tender.

Audit Committee is rigorous in ensuring that all non-audit assignments to PwC are vetted by us in order to ensure the proper independence of judgement of our external auditor. We have hired PwC for work associated with our Premium Listing as this is justified by the synergies with their role as our external auditor. The Audit Committee and management are in agreement that we should look to other providers for future non-audit services where they offer an economically and professionally equivalent alternative. The Audit Committee policy adopted in 2015 formally introduces new rules on the engagement and remuneration of the Bank's external auditor in relation to the performance of non-audit services. Essentially, we will only use PwC for non-audit services where such a contract has been pre-cleared with Audit Committee and where there is either a clear synergy with PwC's audit role or where PwC offers superior competence or materially better commercial terms. As stated, we remain satisfied that PwC demonstrates a sufficient degree of independence and objectivity in its role as the Bank's external auditor.

**MR NICHOLAS HAAG**
CHAIRMAN OF THE AUDIT COMMITTEE

# REMUNERATION COMMITTEE REPORT

The Remuneration Committee advises the Supervisory Board on the compensation system for the Supervisory and Management Boards, including reviewing the achievements of and determining compensation for the Supervisory Board and Management Board, the heads of TBC Bank's business segments as well as for certain employees of the Bank. The Remuneration Committee is also responsible for approving members of the long-term management incentive programme and supporting its development, setting the compensation policy relative to the dismissal of key members of the management, and approving annual reports of remuneration policy and practice.

The Remuneration Committee Policy of the Bank is set out on TBC's Investor Relations website.

The following describes the Committee composition and meeting attendance in 2015:

## Remuneration Committee Composition

| Name | Position | Year of Appointment | Scheduled Meetings Eligible to Attend | Scheduled Meetings Attended | Additional Meetings Eligible to Attend | Additional Meetings Attended |
|---|---|---|---|---|---|---|
| Irina Schmidt | Chairman | 2012 | 4 | 4 | 4 | 4 |
| Eric J. Rajendra | Independent Member | 2015 | 1 | 1 | 1 | 1 |
| Nicholas Dominic Haag | Independent Member | 2013 | 4 | 4 | 4 | 4 |
| Nikoloz Enukidze | Independent Member | 2013 | 4 | 4 | 4 | 4 |

**Assessment of Work Completed**
In 2015 the Remuneration Committee worked on the following items in line with its responsibilities and obligations:

**New Compensation System for 2015-2018**
In 2015, the Committee approved the engagement of EY Georgia to provide recommendations on the Bank's New Compensation System for 2015-2018 for the Supervisory Board, the Management Board and the Middle Management.

The New Compensation System 2015-2018 for the Bank's Supervisory and Management Board was approved by the Bank's shareholders at the AGM on 19 May 2015.

**Approval of Management Remuneration and KPI Assessments**
The Committee assessed the Management Board performance against KPIs and set remuneration in accordance with the Senior Management Compensation System adopted in 2015.

**Approval of KPIs for 2016**
The Committee discussed and updated the 2016 KPIs for the Senior Management of the Bank in accordance with the Management Board Compensation System adopted in 2015.

**Assessment of Effectiveness**
The Remuneration Committee Effectiveness Review is conducted every year in order to assess the performance of the Committee. This assessment is carried out by Committee members themselves and by the Supervisory Board as a whole, in line with international standards of best practice in corporate governance. The 2015 Remuneration Committee review has found that the Committee effectively fulfilled all of its responsibilities and obligations.

**Remuneration Disclosure**
Compensation of the key management personnel and supervisory board members is presented below:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| In Thousands of GEL | Expense | Accrued liability | Expense | Accrued liability | Expense | Accrued liability |
| Saleries and bonuses | 9,939 | 867 | 10,096 | 3,929 | 8,783 | 3,798 |
| Cash settled bonuses related to share-based compensation | 4,748 | 5,254 | 1,463 | 2,012 | 1,692 | 1,692 |
| Equity-settled share-based compensation | 6,864 | – | 2,192 | – | 1,671 | – |
| **Total** | **21,551** | **6,121** | **13,751** | **5,941** | **12,146** | **5,490** |

**IRINA SCHMIDT**
CHAIRMAN OF THE REMUNERATION COMMITTEE

# CORPORATE GOVERNANCE AND NOMINATION COMMITTEE REPORT

The Committee is responsible for developing corporate governance principles and guidelines applicable to TBC Bank, assessing the alignment of the Bank's governance practice with international standards of best practice, selecting and screening individuals qualified to become candidates for Supervisory Board and Management Board membership, considering and making recommendations to the Supervisory Board on the composition of the Supervisory Board and the Management Board, as well as on the composition and structure of the Supervisory Board Committees.

The Corporate Governance and Nomination Committee consists of four members of the Supervisory Board. Members meet on a quarterly basis and schedule additional meetings when appropriate. The committee is chaired by Eric J. Rajendra.

The Corporate Governance and Nomination Committee Policy of the Bank is set out on TBC's Investor Relations website.

The following describes the committee composition and meeting attendance in 2015:

### Corporate Governance and Nomination Committee Composition

| Name | Position | Year of Appointment | Scheduled Meetings Eligible To Attend | Scheduled Meetings Attended | Additional Meetings Eligible to Attend | Additional Meetings Attended |
|---|---|---|---|---|---|---|
| Eric J. Rajendra | Chairman | 2012 | 4 | 4 | – | – |
| Badri Japaridze | Member | 2012 | 4 | 4 | – | – |
| Irina Schmidt | Member | 2012 | 4 | 4 | – | – |
| Nikoloz Enukidze | Independent Member | 2013 | 4 | 4 | – | – |

**Assessment of the Work Completed**
In 2015 the Corporate Governance and Nomination Committee worked on the following items in line with its responsibilities and obligations:

**New Members of the Supervisory Board**
The Committee reviewed and approved the initiative of Board members to appoint Nikoloz Enukidze as the Senior Independent Director (SID).

The Board has employed the services of an outside talent selection agency, Korn Ferry, a leading consultancy in the field in the UK, in order to recruit a suitable candidate for the position of an independent Non-executive Directors (INED). The Committee reviewed and approved the selection of the headhunter and requirements for the new independent board member. The committee will be actively involved in the interviews of the short listed candidates and in the selection of the final candidate.

**Succession Planning Policy**
The Committee worked on the Succession Planning Framework and heard and noted the positions of the Management Board members throughout the year. On 22 September 2015, the Committee presented and recommended appropriate Succession Planning frameworks for each of the Deputy CEOs.

Key members of the Management Board and middle management have been identified for succession planning at the CEO and Deputy CEO level. The committee has identified strong and weak areas for each candidate and developed a plan for further professional development. The recommended succession planning framework ensures that the Company builds an appropriate internal leadership pipeline and includes initiatives that cover additional qualification courses, training opportunities and recommendations on developing generalist and specialist skills as needed.

**Supervisory Board Structure of Subsidiaries**
The Committee reviewed the current Supervisory Board structures for the Bank's subsidiaries, noting that these are effective and appropriate for the respective companies.

The Committee also noted that relevant training will be provided for the Subsidiary Board members.

**Induction and Training**
New Directors of the Supervisory Board receive induction training shortly after appointment. Further professional development opportunities are provided based on the work Directors carry out on different Supervisory Board committees. In 2015, the Corporate Governance and Nomination Committee was involved in developing a specialised intranet for the Supervisory Board members. The website acts as a portal of all materials, minutes and support documents relevant to the work of the Supervisory Board, making the current and archived information easily accessible to all Directors.

The Committee has implemented a development programme for the members of the Supervisory and the Management Boards. Members of both Boards are required to complete a self-assessment process at the end of the year, where the members of the Supervisory Board and the Management Board identify a relevant development programme. In 2015, the Corporate Governance and Nomination Committee approved a special training for the Committee members to be delivered by the Institute of Directors (IoD), a leading consultancy in this area. The training was conducted on 17 March 2016.

**Assessment of Effectiveness**
The Corporate Governance and Nomination Committee effectiveness review is conducted every year in order to assess the Committee's performance. This assessment is carried out by Committee members themselves and by the Supervisory Board as a whole, in line with international standards of best practice in corporate governance. The 2015 Corporate Governance and Nomination Committee review has found that the Committee effectively fulfilled all of its responsibilities and obligations.

**ERIC J. RAJENDRA**
CHAIRMAN OF THE CORPORATE GOVERNANCE AND NOMINATION COMMITTEE

# RISKS, ETHICS AND COMPLIANCE COMMITTEE REPORT

The Risk, Ethics and Compliance Committee (RECC) is responsible for reviewing, assessing and recommending any actions to be taken by the Supervisory Board regarding TBC Bank's risk management strategy, risk appetite and tolerance, risk management system and risk policies. In addition, the RECC reviews and approves exposures to 20 largest borrower groups of and borrowers with aggregate liability to TBC Bank exceeding 5% of TBC Bank's Basel capital. Other main responsibilities of the committee are to supervise TBC Bank's commitment to the highest standards of ethical behaviour and to oversee TBC Bank's compliance function.

RECC consists of four members of the Supervisory Board and members meet in person on a quarterly basis. If required, the Committee holds additional meetings via electronic communications, including meetings held in accordance with RECC's loan approval responsibility. The Committee is chaired by Nikoloz Enukidze, an Independent Member of the Board.

The Risks, Ethics and Compliance Committee Charter of the Bank is set out on TBC Bank's Investor Relations website.

The following describes the committee composition and meeting attendance in 2015:

### Risk, Ethics and Compliance Committee Composition

| Name | Position | Year of Appointment | Scheduled Meetings Eligible To Attend | Scheduled Meetings Attended | Additional Meetings Eligible to Attend | Additional Meetings Attended |
|---|---|---|---|---|---|---|
| Nikoloz Enukidze | Chairman | 2014 | 4 | 4 | 11 | 11 |
| Nicholas Dominic Haag | Independent Member | 2013 | 4 | 4 | 11 | 11 |
| Badri Japaridze | Member | 2012 | 4 | 4 | 11 | 11 |
| Irina Schmidt | Member | 2012 | 4 | 4 | 11 | 11 |

**Assessment of the Work Completed**
2015 was year of significant progress for our Risk Management. Transformational project started by our CRO George Tkhelidze and his team at the end of 2014 achieved important milestones. We made significant senior additions to our risk management team and increased sophistication and granularity of risk management processes in line with most recent best practices. We implemented new more sophisticated Risk Appetite Framework, which is better aligned with business strategy and with internal planning / budgeting process, also enabling us to cascade more efficiently Risk Appetite parameters set by the Board down to every business unit. New IFRS loan provisioning policy launched at the end of 2015 will help us to measure and manage our portfolio risk better.

The Committee was actively involved in this transformational project providing support to the management team and closely monitoring the process. In addition to our four formal meetings of the Committee, RECC members had many informal meetings and discussions with our risk management team, our regulators, consultants and auditors.

RECC had quarterly discussions of bank's risk management results, macro-economic environment and its past and forecast impact on the Bank's loan portfolio. RECC also heard regular updates on implementation of the Bank's compliance programme for 2015.

During the year, RECC reviewed number of important risk management and compliance policy documents, including updated Risk Appetite Framework, ICAAP document, revised IFRS provisioning methodology, Operational Risk Management Framework, Liquidity Risk Policy, FX Risk Policy, Interest Rate Risk Policy, Anti-Money Laundering Policy, Liquidity Contingency Plan and Code of Ethics. In addition to this, in the context of macro development and local currency devaluation broadly consistent with the regional and global trends, RECC was actively involved in Portfolio management activity discussions and in review of management's portfolio monitoring results.

RECC views training as important tool in carrying out its duties. In June, we organised training for our Board members and senior management on "Strategic Value of Compliance and AML". Committee members also visited insider trading and AML training organised by the Compliance department for the Bank's employees, in order to underscore the importance assigned to this training by the Board.

RECC had four formal meetings in each quarter of 2015. RECC meetings normally last four-five hours and are attended by the Bank's CEO, CFO, CRO, Chief Compliance Officer and other senior members of the management team.

The full Directors' Statement on Risk Management and Internal Control is provided on page 99.

**Assessment of Effectiveness**
The Risks, Ethics and Compliance Committee Effectiveness Review is conducted every year by the Board and the individual Committee members in order to assess the RECC performance, as per international standards of best practice in corporate governance. During the year 2015, the Committee was effective in overseeing the Bank's risk management, compliance activities and ethical standards.

**NOKOLOZ ENUKIDZE**
CHAIRMAN OF THE RISK, ETHICS AND COMPLIANCE COMMITTEE

# MANAGEMENT BOARD

The Management Board is responsible for TBC's day-to-day management, with the exception of functions reserved to the General Meeting of Shareholders and the Supervisory Board. The Supervisory Board appoints the members of the Management Board for renewable terms of four years and is also in charge of their dismissal. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil. The scope of authority of each member of the Management Board is defined by a contract entered into with the director upon appointment.

## Members of the Management Board

**VAKHTANG BUTSKHRIKIDZE**
CEO
Vakhtang joined TBC Bank as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees. Vakhtang is also a member of the Supervisory Boards of the Association of Banks of Georgia and is Chairman of the Financial Committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the Supervisory Board of the Partnership Fund, Georgia. In 2016, Vakhtang joined the Visa Central & Eastern Europe, Middle East and Africa (CEMEA) Business Council. In his earlier career, Vakhtang 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, Vakhtang was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011, he was recognised as the "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award. Vakhtang was also named as the CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine. Vakhtang 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 post graduate qualifications from the Institute of Economics, Academy of Sciences of Georgia.

**PAATA GADZADZE**
FIRST DEPUTY CEO
Paata joined TBC Bank in 1994 as Deputy General Director of TBC Bank and was appointed to the Management Board in 1996. In 2005, he was also Head of the Credit Department. Paata has held the position of First Deputy CEO since 1998. Since 2014, he has held the position of the member of the Supervisory Board of TBC Leasing. Since 2016, Paata serves as a lecturer at the Free University, Georgia. Between 2000 and 2004, he also served as CEO of Georgian Pension and Insurance Holding. In his earlier career, Paata was an Assistant to the Minister of State Property Management between 1992 and 1994. Paata also held the position of a lecturer at the European School of Management in Tbilisi between 1994 and 2004. Paata graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia.

**GIORGI SHAGIDZE**
DEPUTY CEO, CFO
Giorgi became Deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Management Board in 2010. From 2011 until its merger with TBC Bank in 2015, he served as a member of the Supervisory Board of Bank Constanta. Giorgi also is a Board Member of the Georgian Stock Exchange. Prior to joining TBC Bank, Giorgi acted as a Global Operations Executive for Barclays Bank Plc between 2008 and 2010. In his earlier career, Giorgi worked at the Agro Industrial Bank of Georgia at various positions including as the Head of the Credit Investment Department and Head of International Payments between 1996 and 2001. Between 2001 and 2005, he worked at Tbiluniversalbank, where he held the positions of CEO, Deputy CEO, and Head of IT and Branch Manager. In 2005, he became Director of the Distribution Channels Division at Bank of Georgia before becoming Deputy CEO of Peoples Bank of Georgia in 2005. Giorgi obtained an MBA degree from the University of Cambridge Judge Business School in 2008. He graduated from Tbilisi State University in 1997 with a degree in Economics.

**VANO BALIASHVILI**
DEPUTY CEO, COO
Vano joined TBC in 1999 as Head of Service, Internal Audit and Control. He became Finance Division Chief in 2000 and has held the position of Deputy CEO, Chief Operating Officer since 2002. Since 2008, Vano has also held the position of Chairman of the Supervisory Board of UFC. Between 1993 and 1995, he held the positions of Intern Accountant and Accountant at Commercial Bank Sandro and Chief Accountant at Commercial Bank Shalen. Between 1995 and 1999, he held the positions of Economist, Foreign Exchange Division, Head of the Foreign Exchange Department, and Head of the Internal Audit Department at JSC TbilCredit Bank. Vano graduated from Tbilisi State University in 1992 with a degree in Economics and obtained an MBA from the European School of Management in Tbilisi. In 2011 he obtained a Master's Certificate in Project Management from George Washington University School of Business.

**GEORGE TKHELIDZE**
DEPUTY CEO, CHIEF RISK OFFICER
George joined TBC Bank in 2014 from Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. Prior to this, 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, where he also served as Chief Executive Officer. George graduated from the London Business School with an MBA degree (2009). He also holds Master of Laws degree (LL.M) in International Commercial Law from the University of Nottingham (2002) and Graduate Diploma in Law from Tbilisi State University (2000).

**DAVID TSIKLAURI**
DEPUTY CEO, CORPORATE BANKING
David joined TBC Bank in 2014 from Deutsche Bank, where he served as the Vice President of the Capital Markets and Treasury Solutions team since 2011. He has specific expertise in the origination, structuring and execution of public and private transactions and principal investment trades in several countries, including the Emerging Markets. Prior to this, David worked as an Associate in the Debt Capital Markets Department at Deutsche Bank. In his earlier career, he served as the Head of Investor Relations at TBC Bank during 2005-2006. David obtained his MBA degree from London Business School in 2008. He also holds MSE and BSE degrees from the Georgian Technical University.

# MANAGEMENT BOARD
## CONTINUED

**NINO MASURASHVILI**
DEPUTY CEO, RETAIL AND SME BANKING
Nino 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, Retail and SME Banking in 2006. Between 2006 and 2008, Nino was the Chairman of the Supervisory Board of UFC. During 2011-2015 she also held a position of a member of the Supervisory Board of Bank Constanta until its full merger with TBC Bank. Since 2011, Nino has been a member of the Supervisory Board of TBC Kredit. In her earlier career, she held the positions of Credit Account Manager, Credit Officer, Financial Analyst (Financial Department) and Head of the Financial Analysis and Forecasting Department at JSC TbilCom Bank Between 1995 and 2000. Between 1998 and 2000, she also held the position of Accountant at the Barents Group. Nino graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA degree from the European School of Management in Tbilisi.

**NIKOLOZ KURDIANI**
DEPUTY CEO, MICRO BANKING
Nika has more than ten years of experience in the banking industry which includes five years at UniCredit Group in Austria, Turkey and Kazakhstan. Immediately before joining TBC Bank in 2014, Mr. Kurdiani was Managing Director at Kaspi Bank, a leading retail bank in Kazakhstan. Prior to obtaining his MBA degree in 2007, he served as Head of the Retail Banking Division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006. He has expertise in post-acquisition integration and restructuring, as well as retail and SME banking. Between 2008 and 2010, Nika held the position of Senior Sales Support Expert at the CEE Retail Division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was Head of the Retail Division of ATF Bank, UniCredit Group in Kazakhstan. Nika obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr-University Bochum in Germany and the Caucasus School of Business.

# MANAGEMENT BOARD COMMITTEES

In order to effectively carry out its daily responsibilities, the Management Board has established the following committees: Management Board Risk Committee, Assets and Liabilities Management Committee (ALCO), Operational Risk Management Committee, Inside Information Committee, Customer Experience Management Committee, IT Steering Committee, Information Security Steering Committee, Change Advisory Board Committee.

## Management Board Risk Committee

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

## Assets and Liabilities Management Committee (ALCO)

The ALCO is responsible for overseeing the effective implementation of TBC Bank's asset and liability management policies in order to (I) maximize shareholder value and enhance profitability, (II) ensure that liquidity, interest rate, foreign exchange, capital adequacy and interbank counterparty risks are managed efficiently within the Risk Appetite Statement, and (III) ensure compliance with existing covenants and limits from the NBG, IFIs and other third parties.

The functions of the ALCO include setting and monitoring risk exposure limits based on reports, analysis, forecasts, stress tests and hypothetical scenarios prepared by TBC's financial risk management and other functions, approving risk management methodologies, making decisions and amendments to TBC's asset liability structure, approving risk hedging instruments, and deciding on corrective actions in case specified limits are breached. The ALCO is given authority to make a number of decisions regarding TBC's assets and liabilities under its governing documents, although authorisation for certain decisions is reserved to the Management Board.

## Operational Risks Committee

The Operational Risks Committee is responsible for reviewing operational risks faced by the Bank, overseeing these risks and making decisions in order to minimise them. The Operational Risks Committee functions are to review and approve operational risk management policy; review and approve recommendations related to the development of the risk management framework; review and approve the limits of risk insurance; discuss reports on operational risks; monitor critical risks; and prepare recommendations for the Management Board on these issues.

## Other Committees

The Inside Information Committee deals with the identification, control and disclosure of the inside information and acts as the first point of contact in cases of leaks of the inside information or rumours. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The Customer Experience Management Committee is responsible for overseeing and ensuring customer satisfaction. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The IT Steering Committee is responsible for prioritisation and approval of IT projects and the IT project portfolio performance oversight. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The Information Security Steering Committee supervises and controls information security and business continuity within the Bank's management system. The Committee is chaired by the Deputy Chief Information Officer with membership comprised of top and middle managers.

The Change Advisory Board Committee is responsible for the review and approval of all IT related change requests initiated by different business units. The Committee is chaired by the Deputy Chief Information Officer with membership comprised of top and middle managers.

# RISK MANAGEMENT

## Risk Management Objectives and Principles

TBC Bank operates a strong and independent, business minded risk management system. Its main objective is to contribute to the sustainability of risk adjusted returns through implementation of an efficient risk management system. Four major principles in the course of risk management have been adopted to enable the accomplishment of major objectives:

- **Govern risks in a transparent manner to obtain understanding and trust.** Consistency and transparency in risk related processes and policies represent preconditions for gaining trust from various stakeholders. The communication of risk goals and strategic priorities to governing bodies and the provision of a comprehensive follow-up in an accountable manner are key priorities for risk staff.
- **Promote sustainable growth and TBC Bank's resiliency through prudent risk management.** Risk management represents a backstop against excessive risk-taking. Capital adequacy management and strong forward-looking tools and decision-making ensure TBC Bank's sustainability and resiliency.
- **Ensure that risk management is an enabler of TBC Bank's strategy.** Risk staff provide assurance on the feasibility of the achievement of objectives through risk identification and management. Identification and the adequate pricing of risks, as well as risk mitigation actions, help generate desired returns and achieve planned targets.
- **Ensure that risk management represents a competitive advantage for TBC Bank.** Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders and ensures the sustainability and resiliency of the business model and the positioning of risk management as TBC Bank's competitive advantage and strategic enabler.

## Key Risks

The key risks faced by TBC Bank include credit risk, liquidity and market risks (including interest rate risk and foreign currency risk) and operational risk. Moreover, strategic, reputational and compliance risks are also recognised.

## Credit risk

As a provider of banking services, TBC Bank is exposed to risk of losses due to the failure of a customer or counterparty to meet its obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the most material risk faced by the Bank as long as it is engaged mainly in traditional lending activity with a simple balance sheet. Due to high dollarisation of the economy, currency induced credit risk is one of the significant components of credit risk, which relates to risks arising from foreign currency-denominated loans to un-hedged borrowers in the Bank'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.

### Liquidity Risk

Liquidity risk is inherent in banking operations. Both funding and market liquidity risks can emerge from a number of factors which are beyond TBC's control. Due to financial market instability, factors such as a downgrade in credit ratings or other negative developments can affect the price or ability to access funding necessary to make payments in respect of the Bank's future indebtedness.

### Market Risk

TBC Bank does not operate a trading book. Thus, its exposure to market risk comprises foreign exchange risk and interest rate risk in the banking book. Accordingly TBC'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. Due to high dollarisation of the economy in Georgia, movements in foreign exchange rates, can adverse effect TBC's financial position.

### 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.

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. It includes legal risk, but excludes strategic and reputational risk.

### Reputational Risk

Reputational risk is the possible loss of the organisation's reputational capital resulting in decline of the organisation's overall value and/or increased regulatory or other costs. It includes adverse events related to ethics, safety, security, sustainability, quality, and innovation.

### Strategic Risk

Changes in market conditions, customer behaviour, and technology may all negatively impact the Bank's results if adaptability to the environment is compromised. Respectively the Bank is exposed to strategic risk.

### Compliance Risk

The Bank is exposed to compliance risk given that it is governed by local regulations as well as creditor covenants.

# RISK MANAGEMENT
## CONTINUED

### Key Focus in 2015

2015 was a significant year for the risk management function of TBC Bank as the economy was affected by adverse external developments. The currency depreciated by approximately 30% resulting in debt burden appreciation of the largely dollarised customer base. As a result the Bank's risk management tools and techniques were utilised at their maximum capacity, managing credit risk in a proactive manner and helping to minimise the impact of adverse developments on the Bank's risk profile and profitability. Key focus activities are summarised below.

| | |
|---|---|
| **Intense Portfolio Monitoring** | • In response to local currency devaluation, the Bank undertook scrutinised monitoring of the loan book both on a transaction and portfolio level. As a result of this monitoring process, individual borrowers affected by currency devaluation were identified and specific action plans were outlined; vulnerable products and industries were identified with underwriting criteria being revised accordingly. This approach enabled the Bank to keep credit risks within acceptable limits despite an unstable macro environment. |
| **Proactive Restructuring Offered to FX Borrowers Weakened by GEL Depreciation** | • The Bank offered restructuring to borrowers with foreign currency denominated exposures which were affected by the currency depreciation. The purpose of this restructuring process was to enable customers with increased debt burden to meet their credit obligations. Either loan maturity lengthening or conversion to local currency options was exercised by borrowers. Restructuring packages were tailor made to individual borrower needs especially in case of large borrowers. |
| **NPL and LLP Methodology Updates** | • The Bank updated its NPL methodology to harmonise it with international best practice so that it appropriately reflects portfolio quality, also resulting in better comparability of TBC's NPL ratio with that of peers. In past years TBC Bank disclosed the share of 90 days past due and restructured loans in the total portfolio. From December 2015, TBC Bank applied an updated definition of Non-Performing Loans which incorporates loans with principal or interest overdue by more than 90 days and those with identified underlying well-defined weaknesses regardless of the amount or days in arrears. The Management believes that the updated definition results in a more accurate and sound classification of non-performing exposures.<br>• As of 31 December 2015, TBC Bank reports (IFRS) loan loss provisions based on a revised methodology. The methodology was developed in 2015 with the support of Deloitte. It increased the sophistication of assessment of impairment allowances resulting in enhanced accuracy. In particular, more granular segmentation of the portfolio was undertaken and various sophisticated risk parameters were applied for a more comprehensive assessment of losses. TBC Bank has also enhanced its assessment methodology for individually "significant" borrowers through the introduction of a scenario analysis. The updated provisioning methodology did not result in a material impact on the overall impairment allowances of the Bank. For more details, please refer to Note 9 of Audited Financial Statements of TBC Group. |
| **Structural & Functional Review in 2015** | • The Bank is focused on continuous enhancement of its risk management practices in line with industry best practices adopted internationally. As a result the Bank undertook a comprehensive structural and functional review of risk management in 2015. The four month comprehensive review was supported by leading risk management consulting firm Oliver Wyman.<br>• The Bank validated its current practice efficiency and established risk strategic priorities across a three-year time horizon. Implementation of key priorities are aimed at promoting prudent and informed risk-taking, risk analysis sophistication advancements, modelling and validation capabilities further development, increasing process automation, etc.<br>• The Enterprise Risk Management (ERM) team was mandated with the responsibility to coordinate the implementation of strategic projects. |

| | |
|---|---|
| **Updated Organisational Structure and Team** | • All risk management functions were consolidated under a centralised risk management umbrella. The resulting organisational structure is sufficient to serve the current scale of Bank activities as well as future strategic developments.<br>• An ERM function in charge of cross-risk analytics was established, driving the risk appetite framework as well as accomplishment of the risk strategy.<br>• Restructuring and collection activities across all workout phases and business segments were consolidated under one umbrella.<br>• The collateral management function was enhanced and centralised.<br>• The financial risk management function joined the risk organisation structure. The team subordinated to CRO drives the financial risk management strategy, defines methodologies and sets limits, while the execution function rests with teams subordinated to CFO.<br>• The Constanta risk team was fully integrated within the risk management team.<br>• The risk management team was further expanded through internal promotions and recruitment of new members. The current team is a combination of TBC Bank's incumbent team, Bank Constanta team and new external additions. The team is equipped with a wealth of Georgian and international banking, regulatory and Big Four audit experience (including at Intesa Sanpaolo, SocGen Group, JPMorgan, and Barclays). This is coupled with world class MBAs and Master degrees from Insead, London Business School, Oxford, Imperial College London, Bocconi University, Grenoble and others. |
| **Further Enhancement of Risk Role in Strategic Planning** | • Risk and business planning processes were further harmonised. A structured planning process with interactive development of the business and risk plans, increases the feasibility of achievement of targets and alignment of the two by solving risk-return trade-offs in the process. |
| **Advancement and Automation of Risk Management Tools** | • As part of business as usual improvements, the risk teams focused on improving the efficiency of the risk analysis process. For that purpose several software tools were launched that increase the efficiency of the credit granting decision-making process, collections process and borrowers financial ratio calculations. |
| **Subsidiaries Risk Management Harmonisation within the Group** | • TBC Bank's risk teams increased their involvement in subsidiary risk management, especially in the areas of credit and operational risks. Despite the insignificant size of subsidiaries, the Bank tries to maximise the synergies achievable through Group-wide risk management and risk planning harmonisation. |

# RISK MANAGEMENT
## CONTINUED

### Risk Management Framework
All of the components necessary for comprehensive risk governance are embedded in the risk management framework, which is comprised of enterprise risk management, credit, financial and non-financial risk management, risk reporting and the supporting IT infrastructure, cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. The following "figure 1" depicts the risk management framework building blocks.

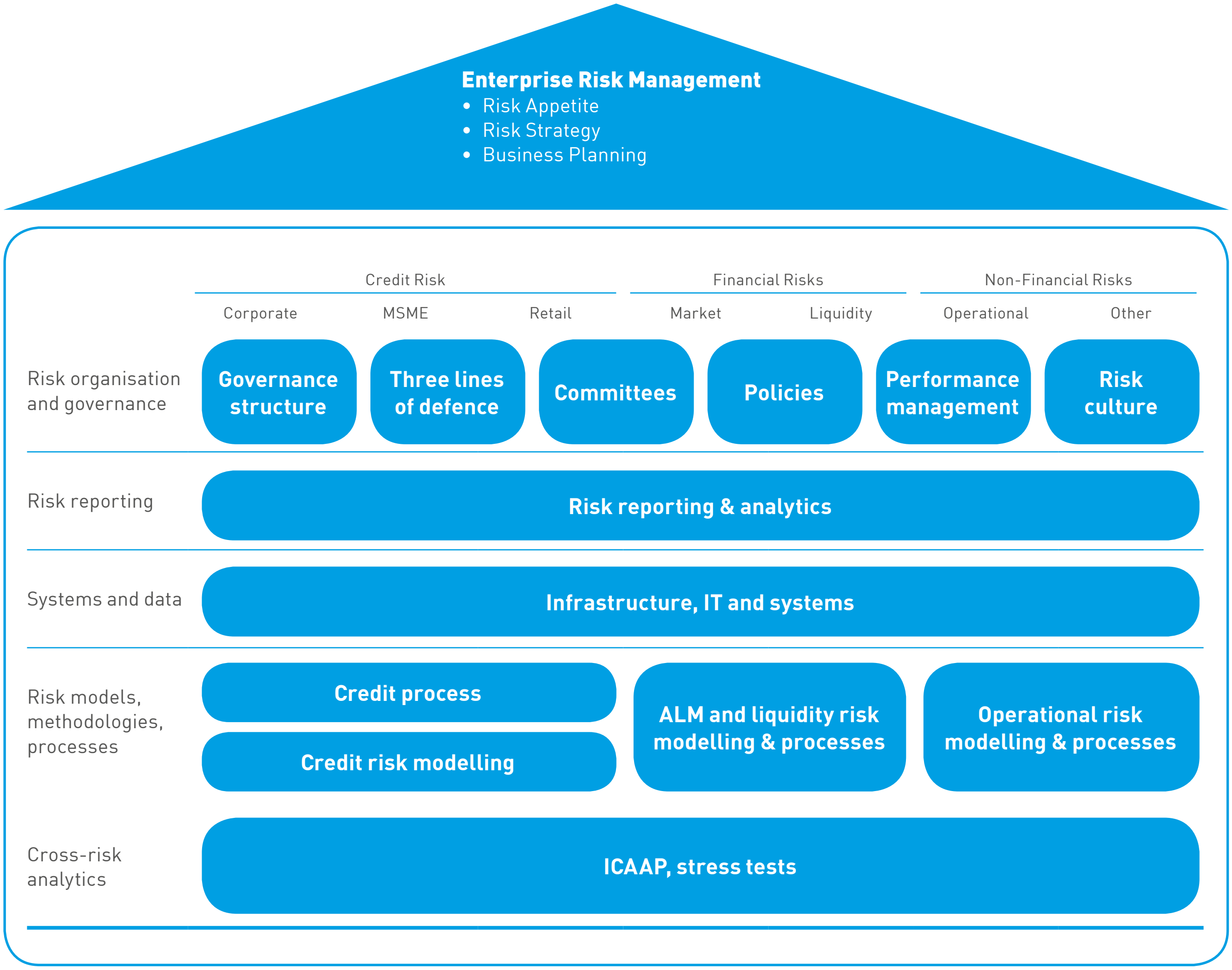



Figure 1 TBC Bank's Risk Management Framework

## Risk Organisation and Governance

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 authorities and effective communications between different structures, facilitates clarity regarding TBC's strategic and risk objectives, adherence to TBC's risk appetite and sound risk management. TBC's governance structure ensures adequate oversight and accountability, as well as clear segregation of duties. Figure 2 on Risk Governance Structure depicts the major risk governance bodies at various levels: Supervisory Board, Management Board, Risk Management Organisation.

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 Bank's daily activities.

Both the Supervisory Board and the Management Board have established dedicated risk committees. The Risk, Ethics and Compliance Committee of the Supervisory Board supervises the risk profile and risk governance practice within TBC Bank while the Audit Committee is responsible for the implementation of key accounting policies and the facilitation of internal and external auditor activities. The Management Board Risk Committee was established to guide bank-wide risk management activities and monitor major risk trends to ensure the risk profile complies with TBC's established risk appetite. The Operational Risk Committee makes decisions related to operational risk governance while the Assets and Liabilities Management Committee ("ALCO") is responsible for the implementation of asset-liability management policies.

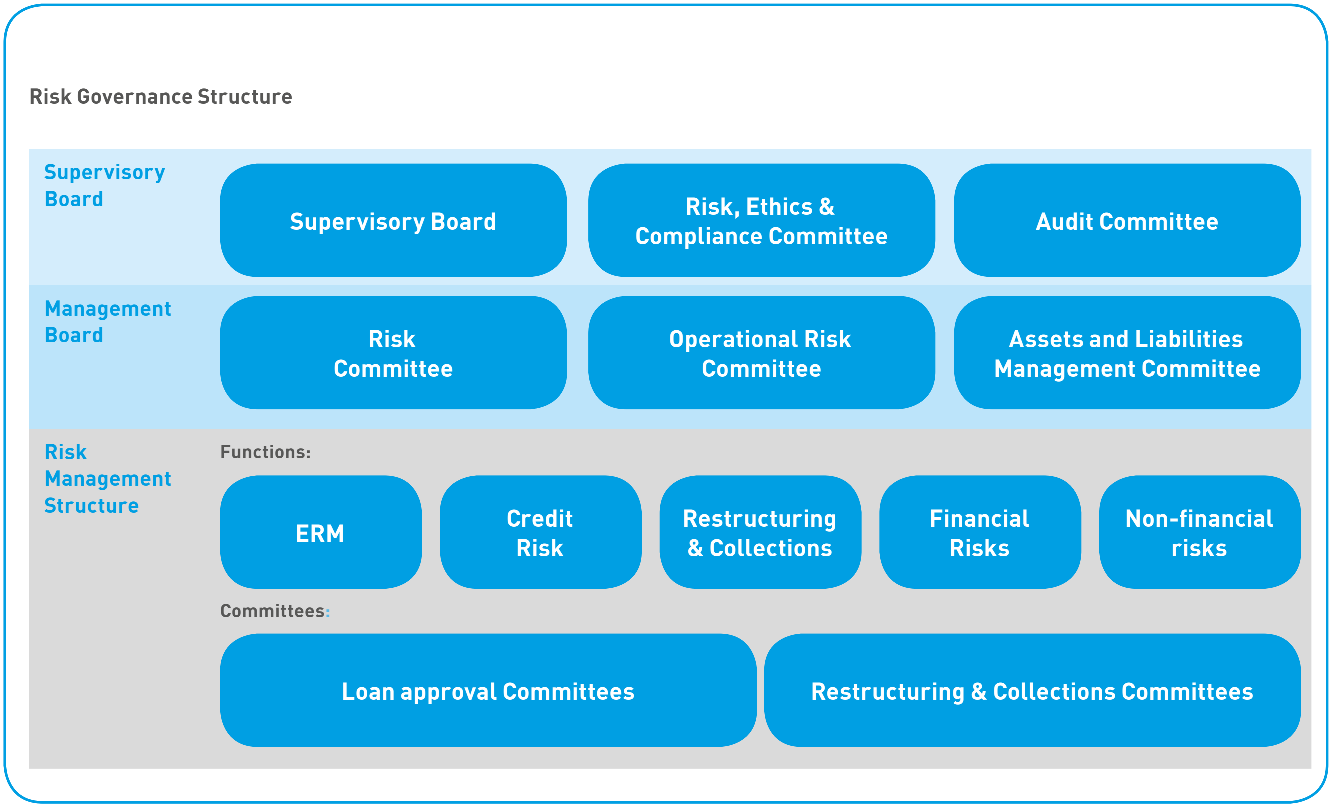



Figure 2 Risk Governance Structure

# RISK MANAGEMENT
## CONTINUED

The Supervisory Board and the senior management of TBC Bank govern risk objectives through the Risk Appetite Statement ("RAS"), which establishes the desired risk profile and risk limits for different economic environments. RAS also establishes monitoring and reporting responsibilities, as well as escalation paths for different trigger events and limit breaches which prompt risk teams to establish and implement established mitigation actions. In order to effectively implement TBC's risk appetite into TBC's 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. That way all employees play their part in the achievement of the Group's risk results. The process of risk appetite setting and cascading is undertaken in parallel to 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 the targets.

Board level 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 primary owners of risks, risk teams assume the function of second line of defence. This is performed through multiple processes, tools and techniques for risk identification, analysis, measurement, sanctioning, monitoring and reporting. Committees established at operational levels are in charge of 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 risks are comprehensively analysed. These control arrangements are aimed at making informed decisions that remain within the predefined risk appetite. 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.

Detailed descriptions of various functions performed within the risk management function are provided below.

**Enterprise Risk Management**
The core areas of the enterprise risk management framework are risk strategy and risk appetite setting and monitoring facilitation. The centralised ERM efficiently supports cross-risk activities such as cross-risk reporting, aggregation and analytics, capital adequacy and stress-testing. The ERM function also drives the Bank's risk culture.

**Credit Risk Management**
A strong credit risk management function is critical for maintenance of a balanced loan portfolio and delivering sustainable returns. For that purpose, a prudent credit risk environment has been established focusing on maintenance of efficient processes for credit risk identification, measurement, and monitoring. Credit risk management by risk teams is performed both on a transaction level and portfolio level. As part of credit risk management, the underwriting unit is involved in transaction level analysis and approval, putting in place checks and controls over borrower analysis performed by business units. Credit risk management by a separate dedicated team is aimed at portfolio oversight and quality monitoring, and development and maintenance of the credit risk management framework including modelling and collateral valuations.

**Restructuring and Collections Management**
In order to minimise losses from delinquent and non-performing loans, the Bank has a centralised restructuring and collections management framework within the risk organisation. A comprehensive portfolio supervision system has been set up to identify weakened credit exposures in a timely manner and take early remedial actions. Separate dedicated professionals focus on restructuring, collections and recoveries of large corporates, SME, micro, unsecured retail and secured retail loans. The teams' efforts are based on a comprehensive framework of strategy selection for borrowers based on their credit quality profile and outlook. Strategies are tailor made to the type and size of exposure. For smaller retail and micro loans, a special collection system is in place to effectively manage overdue loans in a more automated manner. Efficient management of collections, recoveries and repossessed assets supports achievement of the desired portfolio quality and cost parameters.

**Financial Risk Management**
Liquidity risk, interest rate risk and FX risk are managed through defining and maintaining policies and procedures, models and forecasts and conducting stress-tests. Based on the analysis of the emerging risks, the Bank initiates mitigating actions. The financial risk management team under the CRO monitors the strategy and limits compliance which is executed by the Asset-Liability management team subordinated to the CFO. This distribution of functions between CRO and CFO was put in place at the end of 2015. Prior to that, financial risks were managed by a team subordinated to the CFO.

**Operational Risk Management (ORM)**
The main objective of operational risk management is to implement and enforce an appropriate framework for identification, assessment, monitoring and reporting of operational risks. ORM enables TBC Bank to identify and assess operational risk categories across the Bank's different processes and operations; to detect critical risk areas or groups of operations with an increased risk level, to develop response actions; and suggest restrictions in critical risk zones to mitigate identified risks. The ORM ensures that operational risk exposure remains within TBC's risk appetite.

**Additional Layers of Defence**
In addition to the risk teams that are subordinate to the CRO, the Compliance Department is in charge of anti-money laundering ("AML") and compliance risk management. The Internal Audit Department as a third line of defence is in charge of providing independent and objective assurance and recommendations to TBC Bank and its shareholders to facilitate further improvement of operations and risk management.

Compliance is managed by a function subordinated directly to the CEO in charge of 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, establishment of new types of business or customer relationships, or material changes in the nature of such relationships, and other related measures. The function administers TBC's overall compliance systems, performs compliance-related direction and supervision, and instructs on corrective actions for 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. Anti-money laundering is one of the Compliance Department's main functions, established according to Georgian legislation and recommendations of competent international organisations.

The independent internal audit function represents a third line of defence in all areas of the Bank's risk-taking activities. The Internal Audit Department discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

The soundness of internal controls and risk management practices are subject to periodic reviews by an external auditor as well as intense supervision by National Bank of Georgia, effectively representing additional external layers of defence.

## Risk Reporting and Systems

Sound risk reporting systems and IT infrastructure are important tools for the efficient risk management of TBC Bank, in particular for early identification and monitoring of risks and decision-making. Thus, TBC Bank invests in and places significant emphasis on constantly driving the development of required software solutions. In order to ensure availability and fast flow of information, TBC Bank has established a dedicated risk reporting unit. Risk reporting enables senior managers to exercise their oversight role. This is accomplished through delivery of comprehensive information and analysis with adequate frequency for each recipient such as the Supervisory Board, Management Board, various risk management and other units. Risk reports balance a mixture of risk data, analysis, interpretations and qualitative explanations.

**Credit Risk Management**
Credit granting is the major income-generating activity of TBC Bank as well as the major source of risk. Thus, the Bank dedicates significant resources to its management. Credit risk arises from lending to large Corporate clients, SME, Micro and Retail customers. Key significant components of credit risk are currency induced credit risk due to the high dollarisation level of the economy, as well as concentration risk. Major objectives of credit risk management are to put in place sound credit approval processes for informed risk-taking and procedures for effective risk identification, monitoring and measurement. The Bank adopts segment and product specific approaches for prudent and efficient credit risk management.

**Credit Approval**
TBC Bank strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for assessment of a borrower's risk profile. A comprehensive credit risk assessment framework is in place with clear segregation of duties among parties involved in the credit analysis and approval process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting 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. The decision making process for smaller retail and micro loans is largely automated, with borrowers receiving a credit score that reflects the outcome of the borrower's risk profile assessment based on the dedicated scorecard models and credit bureau grading.

Different Loan Approval Committees are in place for the approval of credit exposures to Corporate, SME, Retail and Micro customers. Credit analysts and loan officers from Business Units are primarily responsible for borrower analysis, structuring credit facility and suggesting exposure approval to the loan approval committee. Credit risk managers (as members of Loan Approval Committees) ensure that the borrower and proposed credit exposure risks are thoroughly analysed.

# RISK MANAGEMENT
## CONTINUED

The Bank puts in place sophisticated delegations of authorities for loan approval that are based on the four eyes principle and require higher seniority levels of approval authorities with increasing sizes of exposures. In particular, different tiers of Loan Approval Committees are responsible to review credit applications and approve exposures considering the borrower's aggregated liabilities and risk profile. A large or higher risk loan would be reviewed by a Loan Approval Committee with a higher approval level, such as one including the Chief Executive Officer, Corporate Business Director and Chief Risk Officer. A loan to the top 20 largest borrowers or exceeding 5% of TBC Bank's regulatory capital would require the review and approval of the Risk, Ethics and Compliance Committee.

Such a structure is a sound platform for risk teams to facilitate continuous ehancement and sophistication of borrower analysis by business unit managers, introduce on line controls for risk-taking and ensure that credit approval decisions are in compliance with Bank's established risk appetite.

**Currency Induced Credit Risks (CICR)**
TBC Bank faces currency-induced credit risk given that a large part of its exposures are denominated in foreign currency in line with the dollarisation level of the economy. However, limits are established within the risk appetite framework to ensure the Bank continues its efforts toward minimising the portfolio dollarisation level. Various management tools and techniques are applied to mitigate the inherent CICR risk in the loan book encompassing all phases of credit risk management.

The Bank applies more conservative lending standards to unhedged borrowers with FX denominated exposures in order to ensure that they can withstand a certain amount of FX depreciation without credit quality deterioration. Currency fluctuation is one of the stress scenarios applied throughout analysis of corporate borrowers' risk profile in order to assess the potential impact of the currency depreciation on the borrower's financial standing and thus appropriately structure the loan. As a result, FX denominated loans can withstand certain levels of currency shocks without quality deterioration.

Apart from the measures in place throughout the underwriting process, the Bank actively monitors and assesses the quality of FX denominated loans through stress-testing exercises and holds sufficient capital buffers against unexpected losses.

In the event of material currency depreciation, the Bank has tools in place to accelerate its monitoring efforts, identify customers with potential weaknesses, and introduce prompt mitigation. In response to GEL devaluation in 2015 by approximately 30%, the Bank focused on intense portfolio quality monitoring throughout the year. During the monitoring process, the Bank assessed the impact of currency depreciation on the overall portfolio as well as the risk profile, and the estimated outlook for individual exposures. Based on the monitoring results the Bank undertook proactive restructuring, adjusted underwriting standards and ran a continuous follow-up monitoring process limiting potential impact of the devaluation on the Bank's risk profile.

**Credit Concentration Risk**
TBC Bank is exposed to concentration risk defined as potential deterioration in portfolio quality due to large exposures or individual industries. Management tools are established by the Bank in order to efficiently manage concentration risk. In particular, name concentration, sectoral concentration and unsecured lending limits are defined as part of the Bank's risk appetite framework. The Bank is subject to single name as well as TOP 20 borrowers' concentration limits and focuses on optimisation of the structure and quality of the latter portfolio. Unsecured lending is capped by the regulatory requirements. In addition, the Bank imposes limits on individual sectors with more conservative caps applied for high-risk sectors, which are defined based on comprehensive analysis of industry cycles and outlook.

Credit concentrations are monitored by Enterprise Risk Management and Credit Risk Management departments on a monthly basis. Trends in the risk positions are analysed in details and corrective actions are recommended should new sources of risk or positive developments emerge. Throughout the underwriting process, risk teams analyse the impact of disbursing large exposures on the Bank's risk position to make sure that decisions are compatible with the Bank's risk appetite.

Along with managing concentration levels in the portfolio, the Bank estimates unexpected losses and respective economic capital for single name concentration and sectoral concentration using the Herfindahl-Hirschman Index (HHI) thus ensuring that sufficient capital is held against concentration risk.

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

A centralised unit for collateral management is in place governing the Bank's view and strategy in relation to collateral management and ensuring that collateral serves as an adequate mitigating factor for credit risk management purposes. The collateral management framework comprises of a sound independent appraisal process, haircuts system throughout the underwriting process, monitoring and revaluations.

Throughout the underwriting process provided collateral is appraised by TBC Bank's Internal Appraisal Group in accordance with TBC's internal policies. In specific instances such as insider lending and material transactions the Bank uses external appraisers to validate appraisals. The Internal Appraisal Group is part of the collateral management unit and is independent from the loan granting process in order to ensure that adequate appraisals are obtained and proper appraisal procedures are followed. When appraising collateral, TBC Bank applies haircuts to the asset's market value based on the property type and its location.

Loan officers and/or appraisers perform on-site visits to check the quality and condition of the provided collateral. Collateral of significant value (defined as cases in which the value of both the loan and the collateral exceeds US$300,000) is re-evaluated annually through on-site visits by internal appraisers. 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 in 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 Bank's collateral appraisal policy.

**Credit Monitoring**

TBC Bank'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. TBC Bank dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Bank 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. Monitoring processes 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.

For corporate and SME loans, monitoring is conducted by a credit analyst (for corporate loans) and loan officer (for SME loans) and is reviewed by underwriting risk managers/credit sanctioners. Regular oversight of monitoring and selective reviews are conducted by the credit risk management team. Debt repayments are monitored on a daily basis. Retail borrowers are monitored for timely debt repayment on a daily basis. Statistical techniques are applied to the monitoring of the overall performance of the portfolio, with a deeper analysis performed for specific sub-segments in the event of signs of performance deterioration. Along with the daily monitoring of debt repayments and a monthly analysis of the portfolio's performance, a dedicated unit is in place for on-site monitoring of micro loans considering the specifics of this segment and given that it is mostly represented by borrowers residing in rural areas. The monitoring group undertakes site visits to the borrower's business to perform its analysis. This process enables TBC Bank to promptly identify any inconsistencies with TBC Bank's lending policy and undertake corresponding actions.

The Credit Risk Management Department analyses trends of the portfolio on a regular basis, including total credit portfolio exposure, portfolio quality, vintage analysis, concentrations, maturities, volumes and performance of Non-performing Loans, write-offs and recoveries, and presents its findings to the Management Board Risk Committee. Furthermore, reports relating to the credit quality of the credit portfolio are presented to the Supervisory Board's Risk, Ethics and Compliance Committee on a quarterly basis. By comparing current data with historical figures, and by analysing forecasts Management believes it is able to identify risks and respond to them by amending its policies in a timely fashion.

**Restructuring and Collections**

TBC Bank uses a comprehensive portfolio supervision system to identify weakened credit exposures in a timely manner and take early remedial actions. Collections and recoveries processes are invoked 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 are in place to manage weakened borrowers across all business segments, with collection and recovery strategies tailored for business segments and individual exposure categories.

The primary goal of restructuring units is to rehabilitate the borrower and transfer the exposure back to the performing category. The sophistication and complexity of the rehabilitation process differs based on the type and size of the exposure. Corporate and SME borrowers are transferred to the restructuring units when there is a 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. A restructuring manager assesses the customer relationship strategy and creates 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 its management's business decisions.

Corporate and SME borrowers are transferred to the recovery unit when there is a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Loan recovery plans consider all available sources of loan recovery, such as selling the borrower's assets, realising collateral or payments under guarantees. TBC Bank'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 micro loans provide support to customers who are experiencing difficulties in meeting their obligations. Such customers may miss payments, or notify TBC Bank about their difficulty with loan repayments. A centralised monitoring team monitors retail and micro borrowers in delinquency, which coupled with branches' efforts are aimed at collection maximisation. Collection strategies are defined considering the size and type of exposure. Specific strategies are tailored for different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.

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

# RISK MANAGEMENT
## CONTINUED

Once the exposure is transferred to the recovery unit, if TBC Bank is unable to negotiate acceptable terms with the borrower, the Bank may initiate collateral repossession, which is usually standard and quite a fast 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.

**Provisioning Guidelines**
According to TBC Bank's policy, loan loss reserves must be maintained at a level that is adequate to absorb all estimated inherent losses in TBC Bank's credit portfolio at any given point in time.

The credit portfolio is assessed for impairment on an individual and collective basis. For provisioning purposes, borrowers or groups of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL 2 million or more are regarded as significant.

To assess impairment with respect to individually "significant" borrowers, TBC Bank outlines trigger events, which include the deterioration of the borrower's financial standing, delinquencies in loan repayments, bankruptcy proceedings, or other events that may affect the borrower's creditworthiness. If there is evidence that an impairment loss event with respect to a significant credit exposure has occurred, TBC Bank assesses the borrower 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. TBC Bank 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.

If TBC Bank determines that no objective evidence exists that an individually assessed financial asset has been impaired, 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, financial assets are grouped into homogenous risk pools based on similar credit risk characteristics, including the type of counterparty (individual or business), the type of product, the past-due status of the financial asset, the restructuring status and the type of collateral.

In order to calculate the impairment allowance for collectively assessed loan pools, TBC Bank estimates certain risk parameters, which include the probability of default, cure rate, recovery rate, survival rate and loss given default, based on historical experience. Probabilities of defaults are calculated based on migration matrices for different overdue buckets within the portfolio and increase based on the number of payments missed, thus raising the associated impairment requirement. For recovery rate estimation purposes, the impaired portfolio is segmented based on the number of months in default and the amounts to be recovered are estimated, which decrease as the number of months in default increase. Cure rates estimate the extent to which defaulted exposures can be cured by the borrower repaying the overdue amounts in full. Exposures with a longer time in default have lower cure rates compared to newly defaulted exposures. For cured exposures, TBC Bank also estimates survival rate, which represents the probability that the exposure will be repaid or survive the one-year quarantine period and become a performing portfolio. In case there is change in the internal or external environment and historical data no longer reflects current conditions, TBC Bank adjusts the risk parameters on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

TBC Bank 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 exposure should survive the quarantine period to be reclassified as a performing loans pool.

### Liquidity Risk Management
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. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

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 the Bank's 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 Liquidity risk management Policy is reviewed by the Management Board prior to approval by the Supervisory Board.

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 without affecting either its daily operations or its financial condition under both normal conditions and during a crisis situation. To manage funding liquidity risk, TBC internally developed a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR) model both under Basel III liquidity guidelines. In addition, TBC also applies stress tests and "what-if" scenario analyses, and monitors NBG minimum liquidity ratio.

LCR (calculated by reference to the sum of qualified liquid assets and 30-day cash inflows divided by 30-day cash outflows) is used to help manage short-term liquidity risks. TBC'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 liquidity coverage ratio limits are put in place. TBC also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis. TBC Bank's liquidity coverage ratios were 288%, 254% and 344% for the years ended 31 December 2015, 2014 and 2013, respectively.

NSFR (calculated by dividing available stable by required stable funding) is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis.

***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's high-quality liquid assets can be sold without causing 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 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.

**Funding and Maturity Analysis**
TBC's principal sources of liquidity include customer deposits and customer accounts, borrowings from local and international banks and financial institutions, subordinated loans from IFI Investors, local inter-bank short-term term deposits and loans, proceeds from sales of investment securities, principal repayments on loans, interest income, and fee and commission income.

We believe 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 its liability structure TBC sets targets for retail deposits in the strategy and sets gross loan to deposit ratio limits. TBC's gross loan to deposit ratio (defined as total value of gross loans divided by total value of deposits) was 111.0%, 111.6% and 102.5% as at 31 December 2015, 2014 and 2013, respectively.

TBC also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

We believe that TBC has sufficient liquidity to meet its current on and off-balance sheet obligations.

For further information on management of liquidity risk, please refer to Note 35 to the Audited Consolidated 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. TBC's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, TBC'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 Management**
TBC is exposed to currency risk that arises from 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 Bank to monitor both balance sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the latter within 20% of TBC Bank's regulatory capital. For the year ended 31 December 2015, TBC Bank maintained an aggregate balance open currency position of 1.56%.
In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and for total aggregate position which are more conservative than those set by the NBG and the Supervisory Board. TBC Bank's compliance with these limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments and is reported periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

Open currency positions are used to assess TBC Bank's minimum capital requirements under the ICAAP framework on a monthly basis. In addition, the Financial Risk Management Department performs stress testing on a monthly basis.

## Interest Rate Risk Management
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 80% of the loans offered by TBC are at fixed interest rates, while a portion of TBC's borrowing 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/deposit 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.

TBC Bank employs an advanced framework for the management of interest rate risk. In order to manage interest rate risk, TBC Bank 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 ALCO. The ALCO decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

# RISK MANAGEMENT
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TBC Bank 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 Bank 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 by the ALCO.

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. As at 31 December 2015 the impact of the downward parallel shift of a yield curve of (4.8)% in GEL and a downward parallel shift of 2.4% in USD on net interest income over a one-year period was equivalent to GEL 35.7 million. In addition, TBC has developed stress tests in accordance with Basel II requirements to ensure that the Bank can withstand severe but probable stress scenarios.

### Operational Risk Management
One of the main risks TBC Bank is exposed to is operational risk, which is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. It includes legal risk, but excludes strategic and reputational risk. However, reputational risk management is also given high importance and priority and is an integral part of the overall risk culture in the organisation.

In order to oversee and mitigate operational risk, TBC Bank has established an operational risk management framework that outlines the general principles for effective operational risk management and defines the roles and responsibilities of various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the framework.

The Management Board ensures a strong internal control culture within the Bank where control activities are an integral part of TBC Bank's operations. The Supervisory Board sets TBC Bank's operational risk appetite and the Operational Risks Committee oversees compliance with the limits set therein. The Operational Risks Committee discusses TBC Bank's operational risk profile and risk minimisation recommendations on a regular basis.
The Operational Risk Management Department is responsible for the implementation of appropriate policies and procedures enabling the Bank to manage operational risks. The ORM department is also responsible for the day-to-day management of operational risks using various techniques that include but are not limited to the running of risk and control self-assessment aimed at detecting possible gaps in operations and processes with the purpose of suggesting appropriate corrective actions; internal risk event database formation for further quantitative and qualitative analysis; performing internal control for detecting systematic errors in banking operations, internal fraud events and monitoring key risk indicators; scenario and root cause analysis; business advisory with regard to nonstandard cases as well as new products and procedures assessment; IT incident occurrence monitoring and overseeing activities targeted at solving identified problems; and insurance policies to transfer the risk of losses from operational risk events. The ORM department reports to the Chief Risk Officer.

For the purpose of measuring potential (both expected and unexpected) operational risk losses and appropriate capital, the Bank uses quantitative tool such as the Advanced Measurement Model (AMA) that incorporates internal and external loss data as well as a scenario analysis of possible events.

There are various policies, processes and procedures in place to control and mitigate material operational risks. These include:
- outsourcing risk management policy which enables TBC Bank to control outsourcing (vendor) risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor;
- implementation of procedures to analyse system flaws and take corrective measures to prevent the re-occurrence of significant losses;
- involvement of the Operational Risk Department in the approval process of new products and services to minimise risks relating thereto; and
- development of a special Operational Risk Awareness program for TBC Bank employees and provision of regular training to further strengthen TBC's internal risk culture.

An Information Security Steering Committee has been established in charge of continuous improvement of information security and business continuity management processes and minimising information security risks. The Committee has been formed to centralise the information security function including physical security, HR security, data security, IT security and business continuity.  The Bank invests in effective information security risk management, incident management and awareness programs, which are enhanced with automated tools that ensure acceptable levels of information security risk within the organisation. Whenever preventive controls are not applicable, comprehensive business continuity and incident response plans ensure TBC Bank's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption.

### 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. 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 on the market. Hence the maintenance of a strong reputation is considered to be a goal of highest priority and importance and reputation risk awareness and management is embedded throughout the Bank including all business units and responsibility levels.

TBC's reputation risk management efforts include:

- monitoring TBC's reputation, addressing matters damaging that reputation and using the feedback from 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; and
- restricting activities that may cause reputational damage to TBC Bank, 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. 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 Bank'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.

## Compliance and AML Risk Management

TBC Bank has established a compliance function that is represented by a three-level structure consisting of the Compliance Department, the CEO and the Risk, Ethics and Compliance Committee. The Compliance Department is responsible for, *but not limited to*, assisting with the identification and assessment of compliance risk in all business activities; advising on compliance policy, processes, rules and standards; assessing the impact of new laws, regulations and guidelines; 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 in relation to anti-money laundering, conflicts of interest, protection of non-public customer information and insider trading. The Compliance Department is accountable to the Risk, Ethics and Compliance Committee and the Supervisory Board, and acts independently within TBC Bank.

TBC's anti-money laundering programme, established in accordance with Georgian law, is a part of TBC's compliance framework. The anti-money laundering unit of the Compliance Department (AML Unit) is responsible for anti-money laundering issues. The anti-money laundering 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 client databases, operational standards, risk-based assessment of customers, due diligence procedures, and the identification of suspicious transactions and transactions that are subject to mandatory reporting to the Financial Monitoring Service of Georgia (FMS). The anti-money laundering policy (and any amendments thereto) is approved by the Management and the Supervisory Board. TBC Bank's anti-money laundering policy and all related internal instructions and standards are available to all employees through TBC Bank's intranet.

To adhere to anti-money laundering policy requirements, TBC Bank has implemented automated solutions for (i) client screening against sanctioned lists during the on-boarding process and international money transfers, (ii) anti-money laundering 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 face-to-face training in anti-money laundering and compliance topics which are tailored for different target groups, including new employees. Training in anti-money laundering and other compliance issues is conducted annually and is followed by staff testing on an annual basis.

TBC's anti-money laundering compliance activities are reviewed annually by its Internal Audit Department. Since the previous report, TBC Bank and its subsidiaries have not been inspected by the National Bank of Georgia regarding abidance of the anti-money laundering law. As of the date of this report, no TBC Group Company has been accused, named or cited in connection with any occurrence of money laundering, financing of terrorist activity, fraud, or other corrupt or illegal purpose transactions or breaches of Georgian laws prohibiting such activities.

# RISK MANAGEMENT
## CONTINUED

### Internal Capital Adequacy Assessment Process

The level of capital that TBC Bank is choosing to hold is impacted by the following factors:

- minimum regulatory requirements (Pillar 1);
- ICAPP (Pillar 2);
- regulatory add-ons (Pillar 2, SREP); and
- business expectations.

Currently, TBC must comply with two regulatory capital adequacy requirements imposed by the NBG in line with the Basel Committee's standards. The new Basel II/III framework, introduced by the NBG in 2013, replaces the previous Basel I based requirements, which are gradually being phased out and will be fully removed by the end of 2017. The NBG version of the Basel II/III requirements is a more conservative version of the original Basel II/III framework, with the main difference being an additional 75% risk weight for foreign currency denominated loans.

For Pillar 2 purposes, TBC has implemented an Internal Capital Adequacy Assessment Process (ICAAP), whereby TBC Bank assesses all material risks that it faces and reserves capital for each. TBC Bank's ICAAP is subject to a Supervisory Review and Evaluation Process and it engages in active dialogue with the regulator to demonstrate that the Bank adequately measures its unexpected losses and holds sufficient capital against it.

The key components of TBC's ICAAP process include risk identification and assessment and capital allocation.

The table below summarises the material risks TBC Bank faces and the approaches used to calculate capital charges for each identified risk.

**Summary of Risks Considered per Basel Pillar 1 and 2**

| Key areas | Pillar 1 | Pillar 2 |
|---|---|---|
| Credit Risk | Standardised approach | Standardised approach |
| Currency Induced Credit Risk (CICR) | NBG assessment | Bank assessment |
| Market Risk | Standardised approach | Standardised approach |
| Operational Risk | Basic indicator approach | Advanced measurement approach |
| Interest Rate Risk in the Banking Book | — | Advanced approach |
| Reputation Risk | — | Benchmarking |
| Strategic Risk | — | Benchmarking |
| Concentration Risk | — | Bank assessment |

**Stress Testing**

TBC Bank performs regular stress testing exercises which represent a significant management decision making component. The Bank has developed a comprehensive, Enterprise-Wide Stress Testing (EWST) framework that is actively used for capital management and risk assessment purposes. The stress parameters used in EWST are negative trends of GDP, exchange rates, unemployment, interest rates, CPI levels and real estate price levels. The results of EWST are expressed as the amount of capital needed (per risk type) in order to withstand the full potential losses resulting from the specified stress events.

Two severity levels are considered for performing enterprise-wide stress tests. A mild stress scenario is considered to be a stress that might occur during the normal business cycle (once in seven years). A severe stress scenario is based on the assumption of occurrence once in 100 years.

The Bank has introduced an internal capital buffer that is equal to the losses under a mild stress scenario. Additionally the Bank maintains a level of equity that covers losses under a severe stress scenario.

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of JSC TBC Bank:

We have audited the accompanying consolidated financial statements of JSC TBC Bank and its subsidiaries, which comprise the consolidated statements of financial position as at 31 December 2015, 2014 and 2013 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and Notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC TBC Bank and its subsidiaries as at 31 December 2015, 2014 and 2013 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

18 February 2016
Tbilisi, Georgia

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| In thousands of GEL | Notes | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 6 | **720,347** | 532,118 | 390,465 |
| Due from other banks | 7 | **11,042** | 33,704 | 1,708 |
| Mandatory cash balances with the National Bank of Georgia | 8 | **471,490** | 336,075 | 295,332 |
| Loans and advances to customers | 9 | **4,444,886** | 3,556,496 | 2,801,712 |
| Investment securities available for sale | 10 | **307,310** | 466,510 | 500,651 |
| Bonds carried at amortised cost | 11 | **372,092** | – | – |
| Investments in finance leases | 13 | **75,760** | 50,907 | 35,613 |
| Investment properties | 16 | **57,600** | 76,216 | 83,383 |
| Current income tax prepayment | | **9,856** | 251 | 6,202 |
| Deferred income tax asset | 32 | **1,546** | 383 | – |
| Other financial assets | 12 | **64,317** | 43,857 | 45,049 |
| Other assets | 14 | **103,912** | 77,775 | 65,075 |
| Premises and equipment | 15 | **247,767** | 208,692 | 199,668 |
| Intangible assets | 15 | **44,344** | 37,756 | 23,491 |
| Goodwill | | **2,726** | 2,726 | 2,726 |
| **TOTAL ASSETS** | | **6,934,995** | **5,423,466** | **4,451,075** |
| **LIABILITIES** | | | | |
| Due to credit institutions | 17 | **1,113,574** | 749,285 | 565,806 |
| Customer accounts | 18 | **4,177,931** | 3,322,428 | 2,886,883 |
| Other financial liabilities | 21 | **39,435** | 41,346 | 24,850 |
| Current income tax liability | | **912** | 12,433 | – |
| Debt securities in issue | 19 | **21,714** | 20,423 | 4,474 |
| Deferred income tax liability | 32 | **29,244** | 23,187 | 27,814 |
| Provisions for liabilities and charges | 20 | **9,461** | 11,898 | 12,380 |
| Other liabilities | 22 | **40,627** | 34,975 | 31,305 |
| Subordinated debt | 23 | **283,648** | 188,015 | 168,274 |
| **TOTAL LIABILITIES** | | **5,716,546** | **4,403,990** | **3,721,786** |
| **EQUITY** | | | | |
| Share capital | 24 | **19,587** | 19,576 | 16,499 |
| Share premium | 24 | **407,474** | 405,658 | 242,624 |
| Retained earnings | | **712,743** | 532,992 | 402,627 |
| Share-based payment reserve | 25 | **12,755** | 4,624 | 2,032 |
| Revaluation reserve for premises | | **59,532** | 35,096 | 36,735 |
| Revaluation reserve for available-for-sale securities | | **5,759** | 8,675 | 10,716 |
| Cumulative currency translation reserve | | **(6,590)** | 5,484 | 3,389 |
| **Net assets attributable to owners** | | **1,211,260** | **1,012,105** | **714,622** |
| **Non-controlling interest** | 36 | **7,189** | **7,371** | **14,667** |
| **TOTAL EQUITY** | | **1,218,449** | **1,019,476** | **729,289** |
| **TOTAL LIABILITIES AND EQUITY** | | **6,934,995** | **5,423,466** | **4,451,075** |

Approved for issue and signed on 18 February 2016.

**VAKHTANG BUTSKHRIKIDZE**
CHIEF EXECUTIVE OFFICER

**GIORGI SHAGIDZE**
CHIEF FINANCIAL OFFICER

The notes set out on pages 118 – 198 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| In thousands of GEL | Notes | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Interest income | 28 | 649,059 | 512,357 | 474,796 |
| Interest expense | 28 | (236,885) | (173,709) | (192,146) |
| **Net interest income** | | **412,174** | **338,648** | **282,650** |
| Fee and commission income | 29 | 113,837 | 88,203 | 74,361 |
| Fee and commission expense | 29 | (41,546) | (29,523) | (24,301) |
| **Net fee and commission income** | | **72,291** | **58,680** | **50,060** |
| Gains less losses from trading in foreign currencies | | 64,642 | 39,730 | 37,894 |
| Foreign exchange translation gains less losses/(losses less gains) | | 2,579 | 2,359 | (5,901) |
| (Losses less gains)/gains less losses from derivative financial instruments | | (575) | (683) | 613 |
| Other operating income | 30 | 25,883 | 19,600 | 16,136 |
| **Other operating non-interest income** | | **92,529** | **61,006** | **48,742** |
| Provision for loan impairment | 9 | (72,791) | (48,672) | (32,971) |
| Provision for impairment of investments in finance lease | 13 | (967) | (77) | (98) |
| Recovery of/(Provision for) performance guarantees and credit related commitments | 20 | 1,117 | 902 | (6,459) |
| Provision for impairment of other financial assets | 12 | (3,351) | (1,236) | (2,236) |
| Impairment of investment securities available for sale | | – | (22) | (1,142) |
| **Operating income after provisions for impairment** | | **501,002** | **409,229** | **338,546** |
| Staff costs | | (142,777) | (122,835) | (108,613) |
| Depreciation and amortisation | 15,16 | (26,286) | (24,427) | (19,993) |
| Provision for liabilities and charges | 20 | (1,102) | (5,500) | (1,315) |
| Administrative and other operating expenses | 31 | (82,964) | (73,548) | (68,692) |
| **Operating expenses** | | **(253,129)** | **(226,310)** | **(198,613)** |
| **Profit before tax** | | **247,873** | **182,919** | **139,933** |
| Income tax expense | 32 | (29,176) | (24,468) | (15,663) |
| **Profit for the year** | | **218,697** | **158,451** | **124,270** |
| **Other comprehensive income:** | | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | | |
| Revaluation of available-for-sale investments | 10 | (2,436) | (1,849) | 7,923 |
| Exchange differences on translation to presentation currency | | (12,075) | 2,095 | 1,233 |
| Income tax recorded directly in other comprehensive income | 32 | (479) | (192) | (255) |
| *Items that will not be reclassified to profit or loss:* | | | | |
| Revaluation of premises and equipment | | 28,755 | – | – |
| Income tax recorded directly in other comprehensive income | 32 | (4,319) | – | – |
| **Other comprehensive income for the year** | | **9,446** | **54** | **8,901** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **228,143** | **158,505** | **133,171** |
| **Profit is attributable to:** | | | | |
| – Owners of the Bank | | 218,879 | 157,451 | 121,616 |
| – Non-controlling interest | | (182) | 1,000 | 2,654 |
| **Profit for the year** | | **218,697** | **158,451** | **124,270** |
| **Total comprehensive income is attributable to:** | | | | |
| – Owners of the Bank | | 228,325 | 157,505 | 130,517 |
| – Non-controlling interest | | (182) | 1,000 | 2,654 |
| **Total comprehensive income for the year** | | **228,143** | **158,505** | **133,171** |
| **Earnings per share for profit attributable to the owners of the Bank:** | | | | |
| – Basic earnings per share | 26 | 4.4 | 3.4 | 3.0 |
| – Diluted earnings per share | 26 | 4.4 | 3.4 | 3.0 |

The notes set out on pages 118 – 198 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | | Net assets Attributable to owners | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| In thousands of GEL | Note | Share capital | Share premium | Share-based payments reserve | Revaluation reserve for Premises | Revaluation reserve for Available for sale securities | Cumulative currency translation reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| **Balance at 1 January 2013** | | 16,143 | 231,501 | 4,142 | 36,735 | 3,048 | 2,156 | 298,880 | **592,605** | 11,419 | **604,024** |
| Profit for the year | | – | – | – | – | – | – | 121,616 | **121,616** | 2,654 | **124,270** |
| Other comprehensive income | | – | – | – | – | 7,668 | 1,233 | – | **8,901** | – | **8,901** |
| **Total comprehensive income for 2013** | | – | – | – | – | 7,668 | 1,233 | 121,616 | **130,517** | 2,654 | **133,171** |
| Share issue | 24 | 240 | 7,097 | – | – | – | – | – | **7,337** | – | **7,337** |
| Share-based payment | 25 | – | – | 2,032 | – | – | – | – | **2,032** | – | **2,032** |
| Increase in share capital arising from share-based payment | | 116 | 4,026 | (4,142) | – | – | – | – | **–** | – | **–** |
| Equity contribution of owners of non-controlling shareholders | | – | – | – | – | – | – | – | **–** | 594 | **594** |
| Dividends paid | | – | – | – | – | – | – | (17,869) | **(17,869)** | – | **(17,869)** |
| **Balance at 31 December 2013** | | 16,499 | 242,624 | 2,032 | 36,735 | 10,716 | 3,389 | 402,627 | **714,622** | 14,667 | **729,289** |
| Profit for the year | | – | – | – | – | – | – | 157,451 | **157,451** | 1,000 | **158,451** |
| Other comprehensive income | | – | – | – | – | (2,041) | 2,095 | – | **54** | – | **54** |
| **Total comprehensive income for 2014** | | – | – | – | – | (2,041) | 2,095 | 157,451 | **157,505** | 1,000 | **158,505** |
| Share issue | 24 | 3,077 | 172,493 | – | – | – | – | – | **175,570** | – | **175,570** |
| Share-based payment | 25 | – | – | 2,592 | – | – | – | – | **2,592** | – | **2,592** |
| Transaction costs recognised directly in equity | | – | (9,459) | – | – | – | – | – | **(9,459)** | – | **(9,459)** |
| Purchase of additional interest from minority shareholders | | – | – | – | 89 | – | – | (2,627) | **(2,538)** | (8,296) | **(10,834)** |
| Dividends paid | | – | – | – | – | – | – | (26,492) | **(26,492)** | – | **(26,492)** |
| Transfer of revaluation surplus to retained earnings | | – | – | – | (1,728) | – | – | 2,033 | **305** | – | **305** |
| **Balance at 31 December 2014** | | 19,576 | 405,658 | 4,624 | 35,096 | 8,675 | 5,484 | 532,992 | **1,012,105** | 7,371 | **1,019,476** |
| Profit for the year | | – | – | – | – | – | – | 218,879 | **218,879** | (182) | **218,697** |
| Other comprehensive income | | – | – | – | 24,436 | (2,916) | (12,074) | – | **9,446** | – | **9,446** |
| **Total comprehensive income for 2015** | | **–** | **–** | **–** | **24,436** | **(2,916)** | **(12,074)** | **218,879** | **228,325** | **(182)** | **228,143** |
| Share-based payment | 25 | – | – | 8,559 | – | – | – | – | **8,559** | – | **8,559** |
| Transaction costs recognised directly in equity | | – | 1,419 | – | – | – | – | – | **1,419** | – | **1,419** |
| Increase in share capital arising from share-based payment | | 12 | 416 | (428) | – | – | – | – | **–** | – | **–** |
| Dividends paid | | – | – | – | – | – | – | (39,128) | **(39,128)** | – | **(39,128)** |
| Treasury shares returned | | (1) | (19) | – | – | – | – | – | **(20)** | – | **(20)** |
| **Balance at 31 December 2015** | | **19,587** | **407,474** | **12,755** | **59,532** | **5,759** | **(6,590)** | **712,743** | **1,211,260** | **7,189** | **1,218,449** |

The notes set out on pages 118 – 198 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| In thousands of GEL | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest received | | 633,093 | 499,052 | 462,448 |
| Interest paid | | (235,157) | (182,572) | (192,482) |
| Fees and commissions received | | 111,922 | 95,295 | 74,823 |
| Fees and commissions paid | | (41,569) | (29,478) | (24,097) |
| Income received from trading in foreign currencies | | 64,642 | 39,730 | 37,894 |
| Other operating income received | | 18,006 | 13,804 | 10,300 |
| Staff costs paid | | (133,354) | (116,481) | (102,115) |
| Administrative and other operating expenses paid | | (79,669) | (74,703) | (66,849) |
| Income tax paid | | (48,678) | (11,555) | (2,008) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **289,236** | **233,092** | **197,914** |
| **Changes in operating assets and liabilities** | | | | |
| Net (increase)/decrease in due from other banks and mandatory cash balances with the National Bank of Georgia | | (72,453) | (61,192) | 61,275 |
| Net increase in loans and advances to customers | | (364,896) | (686,746) | (453,686) |
| Net increase in investment in finance lease | | (12,994) | (11,889) | (9,334) |
| Net (increase)/decrease in other financial assets | | (13,198) | 593 | (23,048) |
| Net decrease in other assets | | 7,159 | 11,056 | 22,471 |
| Net (decrease)/increase in due to other banks | | (17,351) | 39,539 | (30,334) |
| Net increase in customer accounts | | 249,598 | 336,631 | 297,393 |
| Net (decrease)/increase in other financial liabilities | | (415) | 10,919 | 7,808 |
| Net increase/(decrease) in other liabilities and provision for liabilities and charges | | 1,341 | (5,187) | 5,231 |
| **Net cash from/(used in) operating activities** | | **66,027** | **(133,184)** | **75,690** |
| **Cash flows from investing activities** | | | | |
| Acquisition of investment securities available for sale | 10 | (475,417) | (845,665) | (755,433) |
| Proceeds from disposal of investment securities available for sale | 10 | – | 51,369 | 61,626 |
| Proceeds from redemption at maturity of investment securities available for sale | 10 | 265,107 | 843,695 | 619,902 |
| Acquisition of bonds carried at amortised cost | | (183,084) | – | – |
| Proceeds from redemption of bonds carried at amortised cost | | 193,416 | – | – |
| Acquisition of premises, equipment and intangible assets | 15 | (47,815) | (48,751) | (33,522) |
| Disposal of premises, equipment and intangible assets | | 1,306 | 1,245 | 2,470 |
| Proceeds from disposal of investment property | | 22,166 | 15,452 | 18,316 |
| **Net cash (used in)/from investing activities** | | **(224,321)** | **17,345** | **(86,641)** |
| **Cash flows from financing activities** | | | | |
| Proceeds from other borrowed funds | | 582,198 | 370,124 | 159,856 |
| Redemption of other borrowed funds | | (310,267) | (252,693) | (213,057) |
| Proceeds from subordinated debt | | 60,510 | 6,000 | 45,763 |
| Redemption of subordinated debt | | (16,763) | – | – |
| Proceeds from debt securities in issue | | – | 19,334 | 4,474 |
| Redemption of debt securities in issue | | – | (4,474) | – |
| Dividends paid | | (39,128) | (26,492) | (17,869) |
| Equity contribution of owners of non-controlling shareholders | | – | – | 594 |
| Issue of ordinary shares | | – | 175,570 | 7,199 |
| Transaction costs recognised directly in equity | | – | (9,458) | – |
| Purchase of additional shares in subsidiaries | | – | (10,923) | – |
| **Net cash from/(used in) financing activities** | | **276,550** | **266,988** | **(13,040)** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **69,973** | **(9,496)** | **15,869** |
| **Net increase/(decrease) in cash and cash equivalents** | | **188,229** | **141,653** | **(8,122)** |
| Cash and cash equivalents at the beginning of the year | 6 | **532,118** | 390,465 | 398,587 |
| **Cash and cash equivalents at the end of the year** | 6 | **720,347** | **532,118** | **390,465** |

The notes set out on pages 118 – 198 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015, 2014, 2013

## 1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

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.

In 2009 the Group issued new shares and since then it does not have an ultimate controlling party. At 31 December 2015, 2014 and 2013 shareholders structure is as follows:

| | | % of ownership interest held as at 31 December | | |
|---|---|---|---|---|
| **Shareholders** | **Note** | **2015** | **2014** | **2013** |
| Bank of New York (Nominees), Limited | 25 | **71%** | 71% | – |
| TBC Holdings LTD | | **16%** | 16% | 19% |
| Individuals | | **8%** | 8% | 9% |
| Liquid Crystal International N.V. LLC | | **5%** | 5% | 7% |
| International Finance Corporation | | **–** | – | 20% |
| European Bank for Reconstruction and Development | | **–** | – | 20% |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | | **–** | – | 11% |
| JPMorgan Chase Bank | | **–** | – | 5% |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. | | **–** | – | 5% |
| Ashmore Cayman SPC | | **–** | – | 4% |
| **Total** | | **100%** | **100%** | **100%** |

Bank of New York is the nominal holder of the shares that have been listed on the London Stock Exchange following the IPO in June 2014.

As at 31 December 2015, 2014 and 2013, the shareholder structure by beneficiary ownership interest is as follows:

| | Ownership interest % as at 31 December | | |
|---|---|---|---|
| **Shareholders** | **2015** | **2014** | **2013** |
| Mamuka Khazaradze | **14.8%** | 14.9% | 17.8% |
| Badri Japaridze | **7.4%** | 7.5% | 8.9% |
| GDR holders - excluding IFIs | **47.6%** | 44.3% | – |
| GDR holders – IFIs | **23.0%** | 26.7% | 56.0% |
| Other Shareholders | **7.2%** | 6.6% | 17.3% |
| **Total** | **100%** | **100%** | **100%** |

GDR holders own their interest through Bank of New York, Limited. Individually the beneficiary owners might have higher ownership interest than the individuals separately disclosed in the table above. None of the GDR holders own a controlling stake. Based on internal information, IFIs held 23.0% in 2015 and 26.7% in 2014 through GDRs.

Included in IFIs above are International Financial Institutions IFC, EBRD and FMO. DEG is included in 2013 and 2014.

Other Shareholders include individuals who have beneficiary ownership of less than 2% each (2014: less than 2%; 2013: less than 3%).

***Principal activity.*** 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 has operated under a general banking licence issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 128 (2014: 59; 2013: 60) branches within Georgia. As at 31 December 2015, the Bank had 4,763 employees (2014: 3,427 employees; 2013: 2,893 employees). The significant increase in the number of branches and employees is due to the merger of the Bank with its subsidiary JSC Bank Constanta concluded in January 2015.

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage card processing services to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

## 1 Introduction continued

***Registered address and place of business***. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

***Presentation currency***. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

## 2 Summary of Significant Accounting Policies

***Basis for preparation.*** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

***Consolidated financial statements.*** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (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 majority of voting power in an investee. 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.

The consolidated financial statements include the following principal subsidiaries:

| Subsidiary | Ownership/voting % as of 31 December | | | Country | Year of incorporation or acquisition | Industry |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | | | |
| United Financial Corporation JSC | 98.67% | 98.67% | 93.32% | Georgia | 1997 | Card processing |
| TBC Capital LLC | 100% | 100% | 100% | Georgia | 1999 | Brokerage |
| TBC Leasing JSC | 99.57% | 99.48% | 89.53% | Georgia | 2003 | Leasing |
| TBC Kredit LLC | 75% | 75% | 75% | Azerbaijan | 2008 | Non-banking credit institution |
| Banking System Service Company LLC | 100% | 100% | 100% | Georgia | 2009 | Information services |
| TBC Pay LLC | 100% | 100% | 100% | Georgia | 2009 | Processing |
| Real Estate Management Fund JSC | 100% | 100% | 100% | Georgia | 2010 | Real estate management |
| TBC Invest LLC | 100% | 100% | 100% | Israel | 2011 | PR and marketing |
| Bank Constanta JSC | – | 100% | 84.69% | Georgia | 2011 | Financial institution |
| Mali LLC | 100% | 100% | 100% | Georgia | 2011 | Real estate management |

On 21 January 2015 the Group has completed the legal and operational process of merging JSC Bank Constanta with TBC Bank.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. 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 non-controlling interest that represents present ownership 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 acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 2 Summary of Significant Accounting Policies continued

Goodwill is measured by deducting the net assets of the acquiree 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 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 acquire 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 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 which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

***Disposals of subsidiaries, associates or joint ventures.*** When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

***Financial instruments – key measurement terms.*** 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 price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. 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 held 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 if 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 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 based on solely 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 39.

## 2 Summary of Significant Accounting Policies 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 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 been 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 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.*** 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 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.

All purchases and sales of financial assets that require delivery within the time frame established 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.

***De-recognition of financial assets.*** 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.*** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the 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 transfers of cash and cash equivalents by the Group, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 2 Summary of Significant Accounting Policies continued

***Mandatory cash balances with the National Bank of Georgia.*** Mandatory cash balances with the National Bank of Georgia are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence 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.*** 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 recognised 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") that occurred 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 current period's profit or loss for the year.

***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. Lender provides funds to borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract 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 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.

***Due from other banks.*** Amounts due from other banks are recorded when the Group advances money to counterparty banks with original maturity of more than three months and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

***Loans and advances to customers.*** 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 impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

***Bonds carried at amortised cost.*** Investment securities which the Group intends to hold for an indefinite period and which 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 loan and receivables rather that held to maturity investments. These securities are presented in the balance sheet under caption bonds carried at amortised cost.

## 2 Summary of Significant Accounting Policies continued

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.*** 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 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 Bank 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. The list of events includes but is not limited to the following:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- other events that may impact repayment capability of the borrower.

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.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Bank assess the borrower 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 for assessment of 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 no objective evidence exists that impairment was incurred for an individually assessed financial asset, 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 following risk parameters: probability of default, cure rate, recovery rate, survival rate and loss give default, based on historical experience. In case there is change in internal or external environment and historical data no longer reflects current situation, the Bank adjusts risk parameters on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

The Bank reverses 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 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.

***Repossessed collateral.*** Repossessed collateral represents non-financial assets acquired by the Group in settlement of 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 2 Summary of Significant Accounting Policies continued

***Credit related commitments.*** 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 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 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*** 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 at initiation. Fee income is recognised 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.

***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, 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 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 which case the increase is recognised in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognised in other comprehensive income and reduces revaluation reserve for premises and equipment cumulated in equity.

Depreciation on revalued buildings is charged to profit or loss. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

Costs of minor repairs and maintenance are expensed when incurred. Cost 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.

## 2 Summary of Significant Accounting Policies continued

***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 | shorter of 7 years or the term of the underlying lease |

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 were 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 held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. Investment property is amortised on a straight-line basis over expected useful lives of thirty to fifty years. If any indication exists that 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 licences.

Acquired computer software licences 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 two to fifteen years.

***Finance lease receivables (Investment in finance lease).*** Where the Group is a lessor in a lease which transfers substantially all the 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 earlier of the 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 2 Summary of Significant Accounting Policies continued

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 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.*** The Company recognises receivables from terminated contracts at the moment of lease contract termination. These receivables are recognised 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.*** Prepayment for purchase of leasing assets comprise 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.

***Due to credit institutions.*** Amounts due to credit institutions are recorded when money or other assets are advanced to the Group by counterparty banks. 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.*** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

***Subordinated debt.*** 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 "Tier 2 capital" of the Bank.

***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 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.*** 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.

***Income taxes.*** Income taxes have been provided for 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 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 taxation 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.

## 2 Summary of Significant Accounting Policies continued

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 which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period 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 Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by 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 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 on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 2 Summary of Significant Accounting Policies continued

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

***Foreign currency translation.*** The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of Georgia Lari.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that 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. 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.

When control over a foreign operation is lost, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2015 the closing rate of exchange used for translating foreign currency balances was USD 1 = 2.3949 (2014: USD 1 = GEL 1.8636; 2013: USD 1 = GEL 1.7363); EUR 1 = 2.6169 (2014: EUR 1 = GEL 2.2656; 2013: EUR 1 = GEL 2.3891).

***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 employees of the Group.

***Earnings per share.*** Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

***Diluted earnings per share.*** Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential Ordinary Shares. In calculating diluted EPS, non-vested Ordinary Shares are treated as outstanding on the grant date.

***Segment reporting.*** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

## 2 Summary of Significant Accounting Policies continued

***Share-based payments.*** 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 share-based compensation plan the Group receives services from 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 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 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 parts of both schemes is accounted for under share-based payment reserve. Upon meeting vesting conditions, share-based payment reserve attributable to the vested shares is transferred to share capital and share premium. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share-based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

***Amendments of the consolidated financial statements after issue.*** The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

***Reclassifications.*** In order to achieve better and more useful presentation, the management has changed the presentation of a number of financial statement line items in 2015. The following reclassifications were made to 31 December 2014 balances:

| Period end | Financial statement line item | As previously reported | As reclassified | Description |
|---|---|---|---|---|
| 31 December 2014 | Net cash from investing activities<br>Net cash from financing activities | 6,422<br>277,911 | 17,345<br>266,988 | Cash outflow on purchase of additional shares in subsidiaries previously presented under investing activities is presented under financing activities |

## 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 Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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:

***Initial recognition of related party transactions.*** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 December 2015, 2014 and 2013, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 41.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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

***Impairment losses on loans and advances and finance lease receivables.*** 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 makes judgments as to whether there is any observable data indicating that there is 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. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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 9,707 thousand (2014: GEL 7,488 thousand; 2013: GEL 7,843 thousand) and additional charge for impairment of finance lease receivables of GEL 37 thousand (2014: GEL 10 thousand ; 2013: GEL 9 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 3,677 thousand (2014: GEL 2,081 thousand; 2013: GEL 4,215 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 2 thousand (2014: GEL 2 thousand ; 2013: GEL 1 thousand), respectively.

***Fair value disclosure of investment properties.*** Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the Group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square metre so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 December 2015, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 105,972 thousand (2014: GEL 79,056 thousand; 2013: GEL 86,480 thousand).

***Tax legislation.*** Georgian and Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

## 4 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

## 5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

***IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).*** Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

## 5 New Accounting Pronouncements continued

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

***IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).***
The new standard introduces 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 Group is currently assessing the impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:
- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- 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 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 6 Cash and Cash Equivalents

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash on hand | 320,363 | 202,384 | 165,385 |
| Cash balances with the National Bank of Georgia (other than mandatory reserve deposits) | 121,494 | 138,396 | 61,407 |
| Correspondent accounts and overnight placements with other banks | 219,275 | 100,305 | 79,643 |
| Placements with and receivables from other banks with original maturities of less than three months | 59,215 | 91,033 | 84,030 |
| **Total cash and cash equivalents** | **720,347** | **532,118** | **390,465** |

91% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2014: 92%; 31 December 2013: 93%).

As at 31 December 2015 GEL 59,215 thousand was placed on interbank term deposits with five non-OECD banks (31 December 2014: 91,033 thousand with four non-OECD banks; 31 December 2013: 84,030 thousand with eight non-OECD banks).

Interest rate analysis of cash and cash equivalents is disclosed in Note 33.

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| A+ | 13,245 | 48,873 | 58,192 |
| A | 1 | 42,452 | 14,904 |
| A- | 152,044 | – | – |
| BBB+ | 30,304 | – | – |
| BBB | 3,039 | 329 | 1,844 |
| BBB- | 2,656 | – | – |
| BB+ | – | 401 | – |
| BB- | 11,671 | 4,151 | 262 |
| B | 164 | 168 | 570 |
| B- | – | – | 1,170 |
| Not rated | 6,151 | 3,931 | 2,701 |
| **Total** | **219,275** | **100,305** | **79,643** |

Credit rating of placements with and receivables from other banks with original maturities of less than three months is as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| BB+ | – | – | 70,042 |
| BB | – | 89,165 | – |
| BB- | – | 1,868 | – |
| B | 23,769 | – | – |
| Not rated | 35,446 | – | 13,988 |
| **Total** | **59,215** | **91,033** | **84,030** |

The table contains ratings of Standard & Poor's and Fitch Ratings international agencies. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used.

As of 31 December 2015 GEL 50,200 thousand (2014: GEL nil; 2013: GEL nil) of investment securities for placements with other banks under repo agreements was held as collateral.

## 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 2015, 2014 and 2013.

Credit rating of placements with other banks with original maturities of more than three months is as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| A | 7,975 | 3,839 | – |
| BBB+ | 72 | 56 | – |
| BB+ | – | 15,924 | – |
| BB- | 1,507 | – | – |
| B | 1,268 | 5,970 | – |
| Not rated | 220 | 7,915 | 1,708 |
| **Total** | **11,042** | **33,704** | **1,708** |

At 31 December 2015 the Group had placements with original maturities of more than three months with three counterparty banks with aggregated amounts above GEL 5,000 thousand (2014: 3; 2013: nil). The total aggregate amount of these placements was GEL 16,551 thousand (2014: 29,179 thousand; 2013: nil) or 87% of the total amount due from other banks (2014: 87%; 2013: nil).

As of 31 December 2015 GEL 8,711 thousand, (2014: GEL 4,525 thousand; 2013: GEL 1,615 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 39 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 33.

## 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 4% annual interest on the mandatory reserve with the NBG in 2015, 2014 and 2013.

In 2015, Fitch Ratings re-affirmed government of Georgia's short term sovereign credit rating of "B" and long-term credit rating of "BB-".

## 9 Loans and Advances to Customers

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Corporate loans | 1,500,104 | 1,231,729 | 1,157,334 |
| Consumer loans | 871,996 | 781,043 | 603,434 |
| Mortgage loans | 905,274 | 716,868 | 499,428 |
| Loans to small and medium enterprises | 625,628 | 533,919 | 392,446 |
| Micro loans | 493,328 | 273,699 | 201,287 |
| Others | 242,699 | 169,002 | 104,652 |
| **Total loans and advances to customers (before impairment)** | **4,639,029** | **3,706,260** | **2,958,581** |
| Less: Provision for loan impairment | (194,143) | (149,764) | (156,869) |
| **Total loans and advances to customers** | **4,444,886** | **3,556,496** | **2,801,712** |

Included in the consumer loans are consumer loans, card loans, overdrafts, express and fast loans and other loans.

At 31 December 2015 loans and advances to customers carried at GEL 34,012 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2014: GEL 46,182 thousand; 2013: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 9 Loans and Advances to Customers continued

Movements in the provision for loan impairment during 2015 are as follows:

| In thousands of GEL | Corporate loans | Consumer loans | Mortgage loans | Small and medium enterprises | Micro loans | Other | Total |
|---|---|---|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2015** | **91,226** | **36,753** | **8,889** | **5,288** | **7,608** | **–** | **149,764** |
| Post-merger reclassification effect | – | (2,373) | (245) | 25 | 2,593 | – | **–** |
| Total provision for impairment during the year: | 22,890 | 29,221 | 7,481 | 13,834 | 20,169 | 2,025 | **95,620** |
| Provision for impairment charged to income statement during the year | 15,396 | 22,286 | 4,693 | 11,628 | 16,763 | 2,025 | **72,791** |
| Recoveries of loans previously written off | 7,494 | 6,935 | 2,788 | 2,206 | 3,406 | – | **22,829** |
| Amounts written off during the year as uncollectible | (6,066) | (22,937) | (2,714) | (5,383) | (12,351) | – | **(49,451)** |
| Effect of translation to presentation currency | – | (256) | (276) | (1,258) | – | – | **(1,790)** |
| **Provision for loan impairment at 31 December 2015** | **108,050** | **40,408** | **13,135** | **12,506** | **18,019** | **2,025** | **194,143** |

Loans and advances to customers written off in 2015 included loans to customers in the gross amount of GEL 7,134 thousand issued during 2015, a previously issued performance guarantee of GEL 1,720 thousand which was transformed into loan in 2015 and GEL 40,597 thousand issued in prior years.

As of YE 2015 the Bank introduced the revised methodology for loan loss provisioning purposes. The updated methodology enables the Bank to assess impairment allowances in more accurate manner, due to more granular segmentation of the portfolio and introduction various risk parameters, such as cure rate, survival rate and credit conversion factor. Furthermore the Bank enhanced methodology for probability of default and recovery rates estimation purposes. Probabilities of defaults are calculated based on migration matrices for different overdue buckets within the portfolio; as for recovery rates, the impaired portfolio is segmented based on months in defaults and amounts to be recovered are estimated respectively.

The Bank has also enhanced individually significant borrowers' assessment methodology, with introduction of scenario analysis. This approach enables the Bank to consider various probable scenarios of cash and/or collateral recoveries leading to more precise estimation of impairment allowance for these borrowers.

As of 31 December 2015 the Groups's allowance for loan impairment under the updated methodology amounts to GEL 194,143 thousand, with difference of GEL 7,711 thousand compared to the allowance for loan impairment if calculated based on the previous methodology (allowance under previous methodology would have been GEL 201,854 thousand). The release was mostly attributable to retail and micro segments. After 31 December 2015 the Bank continues to estimate the allowance for loan impairment under the updated methodology.

Following the merger of Constanta Bank with TBC Bank, the Group has reassessed definition of segments as disclosed in Note 27. Some of the clients were reallocated to different segments and relevant changes in provision groups are presented in the table above under caption Post-merger reclassification effect.

Movements in the provision for loan impairment during 2014 are as follows:

| In thousands of GEL | Corporate loans | Consumer loans | Mortgage loans | Small and medium enterprises | Micro loans | Other | Total |
|---|---|---|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2014** | **107,666** | **31,704** | **8,292** | **4,315** | **4,892** | **–** | **156,869** |
| Total provision for impairment during the year: | 29,461 | 26,886 | 3,323 | 4,173 | 8,263 | 36 | **72,142** |
| Provision for impairment charged to income statement during the year | 18,995 | 20,362 | 1,666 | 1,625 | 6,006 | 18 | **48,672** |
| Recoveries of loans previously written off | 10,466 | 6,524 | 1,657 | 2,548 | 2,257 | 18 | **23,470** |
| Amounts written off during the year as uncollectible | (45,901) | (21,837) | (2,726) | (3,200) | (5,547) | (36) | **(79,247)** |
| **Provision for loan impairment at 31 December 2014** | **91,226** | **36,753** | **8,889** | **5,288** | **7,608** | **–** | **149,764** |

## 9 Loans and Advances to Customers continued

Loans and advances to customers written off in 2014 included loans to customers in the gross amount of GEL 7,142 thousand issued during 2014, a previously issued performance guarantee of GEL 4,823 thousand which was transformed into loan in 2014 and GEL 67,282 thousand issued in prior years.

Included in the amounts written off during the period as uncollectible is the provision of GEL 20,154 thousand for a corporate loan part of which was recovered in June 2014 through repossession of financial instruments amounting to GEL 3,014 thousand which are accounted for under investment securities available for sale.

Movements in the provision for loan impairment during 2013 are as follows:

| In thousands of GEL | Corporate loans | Consumer loans | Mortgage loans | Small and medium enterprises | Micro loans | Total |
|---|---|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2013** | **112,975** | **31,156** | **13,186** | **4,820** | **4,361** | **166,498** |
| Total provision for/(recovery of) impairment during the year: | 21,203 | 22,789 | (2,316) | 1,846 | 4,234 | **47,756** |
| Provision for/(recovery of) impairment charged to income statement during the year | 17,035 | 18,029 | (4,652) | 88 | 2,471 | 32,971 |
| Recoveries of loans previously written off | 4,168 | 4,760 | 2,336 | 1,758 | 1,763 | 14,785 |
| Amounts written off during the year as uncollectible | (26,512) | (22,241) | (2,578) | (2,351) | (3,703) | (57,385) |
| **Provision for loan impairment at 31 December 2013** | 107,666 | 31,704 | 8,292 | 4,315 | 4,892 | **156,869** |

Loans and advances to customers written off in 2013 included loans to customers in the gross amount of GEL 7,387 thousand issued during 2013 and GEL 49,998 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 41.

Economic sector risk concentrations within the customer loan portfolio are as follows:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| In thousands of GEL | Amount | % | Amount | % | Amount | % |
| Individual | **1,792,403** | **39%** | 1,497,911 | 40% | 1,102,862 | 37% |
| Service | **740,351** | **15%** | 575,525 | 15% | 539,825 | 18% |
| Agriculture | **342,760** | **7%** | 265,562 | 7% | 164,441 | 6% |
| Pawn shop | **260,373** | **6%** | 169,002 | 5% | 104,652 | 4% |
| Consumer goods and automobile trading | **231,061** | **5%** | 175,681 | 5% | 130,152 | 4% |
| Real estate | **222,862** | **5%** | 165,937 | 4% | 132,321 | 5% |
| Energy | **217,601** | **5%** | 216,500 | 6% | 106,083 | 4% |
| Food industry | **202,373** | **4%** | 141,283 | 4% | 158,865 | 5% |
| Oil and gas | **115,634** | **3%** | 102,912 | 3% | 121,921 | 4% |
| Communication | **113,905** | **2%** | 94,309 | 2% | 102,547 | 4% |
| Construction | **104,330** | **2%** | 95,111 | 3% | 101,879 | 3% |
| Transportation | **72,022** | **2%** | 64,720 | 2% | 67,223 | 2% |
| Mining | **49,141** | **1%** | 29,952 | 1% | 40,346 | 1% |
| Manufacturing | **37,152** | **1%** | 42,086 | 1% | 33,609 | 1% |
| Other | **137,061** | **3%** | 69,769 | 2% | 51,855 | 2% |
| **Total loans and advances to customers (before impairment)** | **4,639,029** | **100%** | 3,706,260 | 100% | 2,958,581 | 100% |

Service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

At 31 December 2015 the Group had 84 borrowers (2014: 71 borrower; 2013: 62 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 1,378,892 thousand (2014: GEL 1,031,720 thousand; 2013: GEL 910,248 thousand) or 29,7% of the gross loan portfolio (2014: 27.8%; 2013: 30.8%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

| In thousands of GEL | Corporate loans | Consumer loans | Mortgage loans | Small and medium enterprises | Micro loans | Others | Total |
|---|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | | |
| – Borrowers with credit history over two years | 888,642 | 532,152 | 626,293 | 315,062 | 171,222 | 190,261 | **2,723,632** |
| – New borrowers | 399,615 | 290,060 | 246,968 | 250,921 | 291,916 | 48,305 | **1,527,785** |
| **Total neither past due nor impaired** | **1,288,257** | **822,212** | **873,261** | **565,983** | **463,138** | **238,566** | **4,251,417** |
| Past due but not impaired | | | | | | | |
| – 1 to 30 days overdue | 66 | 15,916 | 5,077 | 22,636 | 11,829 | 1,217 | **56,741** |
| – 31 to 90 days overdue | 3,718 | 9,487 | 9,803 | 8,682 | 8,991 | 1,397 | **42,078** |
| – 91 to 180 days overdue | 2,829 | 14 | – | – | 33 | 38 | **2,914** |
| – 181 to 360 days overdue | – | 16 | – | – | 19 | 18 | **53** |
| – More than 360 days overdue | – | 3 | – | – | 1 | 18 | **22** |
| **Total past due but not impaired** | **6,613** | **25,436** | **14,880** | **31,318** | **20,873** | **2,688** | **101,808** |
| Individually assessed impaired loans (gross) | | | | | | | |
| – Not overdue | 187,802 | – | – | 2,747 | – | – | **190,549** |
| – 1 to 30 days overdue | 10,491 | – | – | 5,203 | – | – | **15,694** |
| – 31 to 90 days overdue | 5,109 | – | – | – | – | – | **5,109** |
| – 91 to 180 days overdue | 940 | – | – | – | – | – | **940** |
| – 181 to 360 days overdue | 214 | – | – | – | – | – | **214** |
| – More than 360 days overdue | 350 | – | – | – | – | – | **350** |
| **Total individually assessed impaired loans** | **204,906** | **–** | **–** | **7,950** | **–** | **–** | **212,856** |
| Collectively assessed impaired loans (gross) | | | | | | | |
| – Not overdue | 228 | 5,613 | 9,524 | 3,635 | 738 | – | **19,738** |
| – 1 to 30 days overdue | 100 | 725 | 858 | 3,532 | 118 | – | **5,333** |
| – 31 to 90 days overdue | – | 1,792 | 1,078 | 1,806 | 365 | – | **5,041** |
| – 91 to 180 days overdue | – | 9,683 | 2,901 | 4,409 | 6,262 | 951 | **24,206** |
| – 181 to 360 days overdue | – | 5,150 | 2,692 | 6,555 | 1,833 | 409 | **16,639** |
| – More than 360 days overdue | – | 1,385 | 80 | 440 | 1 | 85 | **1,991** |
| **Total collectively assessed impaired loans** | **328** | **24,348** | **17,133** | **20,377** | **9,317** | **1,445** | **72,948** |
| **Total loans and advances to customers (before impairment)** | **1,500,104** | **871,996** | **905,274** | **625,628** | **493,328** | **242,699** | **4,639,029** |
| **Total provision** | **(108,050)** | **(40,408)** | **(13,135)** | **(12,506)** | **(18,019)** | **(2,025)** | **(194,143)** |
| **Total loans and advances to customers** | **1,392,054** | **831,588** | **892,139** | **613,122** | **475,309** | **240,674** | **4,444,886** |

## 9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

| In thousands of GEL | Corporate loans | Consumer loans | Mortgage loans | Small and medium enterprises | Micro loans | Others | Total |
|---|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | | |
| – Borrowers with credit history over two years | 784,212 | 415,328 | 470,873 | 248,251 | 106,930 | 110,731 | **2,136,325** |
| – New borrowers | 290,596 | 323,911 | 235,411 | 267,137 | 154,407 | 56,316 | **1,327,778** |
| **Total neither past due nor impaired** | **1,074,808** | **739,239** | **706,284** | **515,388** | **261,337** | **167,047** | **3,464,103** |
| Past due but not impaired | | | | | | | |
| – 1 to 30 days overdue | 229 | 13,281 | 3,165 | 5,156 | 3,345 | 1,151 | **26,327** |
| – 31 to 90 days overdue | 2,377 | 201 | 40 | 288 | 151 | 503 | **3,560** |
| – 91 to 180 days overdue | – | 3 | – | – | 56 | 107 | **166** |
| – 181 to 360 days overdue | – | 8 | – | – | – | 88 | **96** |
| – More than 360 days overdue | – | 6 | – | – | – | 106 | **112** |
| **Total past due but not impaired** | **2,606** | **13,499** | **3,205** | **5,444** | **3,552** | **1,955** | **30,261** |
| Individually assessed impaired loans (gross) | | | | | | | |
| – Not overdue | 124,483 | – | – | 2,506 | – | – | **126,989** |
| – 1 to 30 days overdue | 18,270 | – | – | – | – | – | **18,270** |
| – 31 to 90 days overdue | 4,227 | – | – | – | – | – | **4,227** |
| – 91 to 180 days overdue | 325 | – | – | – | – | – | **325** |
| **Total individually assessed impaired loans** | **147,305** | **–** | **–** | **2,506** | **–** | **–** | **149,811** |
| Collectively assessed impaired loans (gross) | | | | | | | |
| – Not overdue | 6,783 | 9,267 | 2,089 | 1,119 | 3,383 | – | **22,641** |
| – 1 to 30 days overdue | 4 | 1,020 | 113 | 68 | 1,670 | – | **2,875** |
| – 31 to 90 days overdue | 207 | 7,445 | 2,912 | 4,942 | 1,861 | – | **17,367** |
| – 91 to 180 days overdue | 16 | 7,641 | 2,022 | 2,771 | 1,625 | – | **14,075** |
| – 181 to 360 days overdue | – | 2,189 | 243 | 1,309 | 268 | – | **4,009** |
| – More than 360 days overdue | – | 743 | – | 372 | 3 | – | **1,118** |
| **Total collectively assessed impaired loans** | **7,010** | **28,305** | **7,379** | **10,581** | **8,810** | **–** | **62,085** |
| **Total loans and advances to customers (before impairment)** | **1,231,729** | **781,043** | **716,868** | **533,919** | **273,699** | **169,002** | **3,706,260** |
| **Total provision** | **(91,226)** | **(36,753)** | **(8,889)** | **(5,288)** | **(7,608)** | **–** | **(149,764)** |
| **Total loans and advances to customers** | **1,140,503** | **744,290** | **707,979** | **528,631** | **266,091** | **169,002** | **3,556,496** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

| In thousands of GEL | Corporate loans | Consumer loans | Mortgage loans | Small and medium enterprises | Micro loans | Others | Total |
|---|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | | |
| – Borrowers with credit history over two years | 619,783 | 285,199 | 335,855 | 179,036 | 70,208 | 9,509 | **1,499,590** |
| – New borrowers | 342,499 | 284,794 | 152,859 | 198,371 | 124,258 | 92,141 | **1,194,922** |
| **Total neither past due nor impaired** | **962,282** | **569,993** | **488,714** | **377,407** | **194,466** | **101,650** | **2,694,512** |
| Past due but not impaired | | | | | | | |
| – 1 to 30 days overdue | 1,012 | 11,973 | 3,735 | 5,287 | 1,827 | 1,440 | **25,274** |
| – 31 to 90 days overdue | 409 | 58 | 11 | 635 | – | 1,136 | **2,249** |
| – 91 to 180 days overdue | 2,786 | 13 | – | – | – | 77 | **2,876** |
| – 181 to 360 days overdue | – | – | – | – | – | 78 | **78** |
| – More than 360 days overdue | – | – | – | – | – | 271 | **271** |
| **Total past due but not impaired** | **4,207** | **12,044** | **3,746** | **5,922** | **1,827** | **3,002** | **30,748** |
| Individually assessed impaired loans (gross) | | | | | | | |
| – Not overdue | 175,635 | – | – | 2,335 | – | – | **177,970** |
| – 31 to 90 days overdue | 357 | – | – | – | – | – | **357** |
| – 91 to 180 days overdue | 4,303 | – | – | – | – | – | **4,303** |
| – 181 to 360 days overdue | 6,040 | – | – | – | – | – | **6,040** |
| **Total individually assessed impaired loans** | **186,335** | **–** | **–** | **2,335** | **–** | **–** | **188,670** |
| Collectively assessed impaired loans (gross) | | | | | | | |
| – Not overdue | 2,727 | 2,145 | 2,191 | 2,075 | 1,349 | – | **10,487** |
| – 1 to 30 days overdue | – | 776 | 485 | 131 | 454 | – | **1,846** |
| – 31 to 90 days overdue | – | 8,794 | 2,624 | 1,184 | 1,669 | – | **14,271** |
| – 91 to 180 days overdue | 295 | 7,014 | 1,234 | 1,702 | 1,328 | – | **11,573** |
| – 181 to 360 days overdue | 1,488 | 2,259 | 434 | 1,529 | 14 | – | **5,724** |
| – More than 360 days overdue | – | 409 | – | 161 | 180 | – | **750** |
| **Total collectively assessed impaired loans** | **4,510** | **21,397** | **6,968** | **6,782** | **4,994** | **–** | **44,651** |
| **Total loans and advances to customers (before impairment)** | **1,157,334** | **603,434** | **499,428** | **392,446** | **201,287** | **104,652** | **2,958,581** |
| **Total provision** | **(107,666)** | **(31,704)** | **(8,292)** | **(4,315)** | **(4,892)** | **–** | **(156,869)** |
| **Total loans and advances to customers** | **1,049,668** | **571,730** | **491,136** | **388,131** | **196,395** | **104,652** | **2,801,712** |

The retail segment in Note 27 includes the following classes from above tables: consumer, mortgage and other. Included in other are primarily pawn shop loans secured with precious metals.

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and 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 tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is 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" includes exposures which are not in overdue and are not classified as impaired. "Past due but not impaired" loans include performing loans which are in overdue however no objective evidence of impairment was identified; and loans which were triggered but are not impaired considering that present value of expected cash and collateral recoveries are sufficient for fully repayment of exposure. "Individually assessed impaired loans" include exposures which were assessed for impairment on an individual basis and corresponding impairment allowance was created. "Collectively assessed impaired loans" include exposures for which objective evidence of impairment was identified and 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.

## 9 Loans and Advances to Customers 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 the following:

- 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 collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2015:

| | 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 | 1,312,561 | 2,810,880 | 187,543 | 64,905 |
| Consumer loans | 550,890 | 1,355,264 | 321,106 | 19,108 |
| Mortgage loans | 891,639 | 2,241,109 | 13,635 | 3,935 |
| Loans to small and medium enterprises | 620,094 | 1,773,481 | 5,534 | 2,644 |
| Micro loans | 458,372 | 915,594 | 34,956 | 8,176 |
| Others | 159,081 | 196,058 | 83,618 | 83,257 |
| **Total** | **3,992,637** | **9,292,386** | **646,392** | **182,025** |

The effect of collateral at 31 December 2014:

| | 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 | 1,093,300 | 2,515,867 | 138,429 | 44,528 |
| Consumer loans | 554,470 | 1,187,516 | 226,573 | 15,505 |
| Mortgage loans | 706,979 | 1,699,839 | 9,889 | 3,789 |
| Loans to small and medium enterprises | 526,499 | 1,519,665 | 7,420 | 1,036 |
| Micro loans | 271,045 | 400,910 | 2,654 | 1,307 |
| Others | 139,350 | 165,452 | 29,652 | 29,351 |
| **Total** | **3,291,643** | **7,489,249** | **414,617** | **95,516** |

The effect of collateral at 31 December 2013:

| | 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 | 1,031,716 | 2,111,706 | 125,618 | 95,188 |
| Consumer loans | 450,391 | 1,001,543 | 153,043 | 5,374 |
| Mortgage loans | 495,153 | 1,200,829 | 4,275 | 2,055 |
| Loans to small and medium enterprises | 379,065 | 1,114,849 | 13,381 | 921 |
| Micro loans | 199,440 | 294,962 | 1,847 | 1,538 |
| Others | 70,141 | 85,905 | 34,511 | 34,063 |
| **Total** | **2,625,906** | **5,809,794** | **332,675** | **139,139** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 9 Loans and Advances to Customers continued

The effect of collateral is determined by comparison of fair value of collateral to gross loans and advances outstanding at the reporting date.

The centralised unit for collateral management is in place in order to have central view and strategy on collateral management and ensure that collaterals serve as an adequate mitigation for credit risk management purposes. Collateral provided in respect of loans is appraised, in accordance with TBC Bank's internal policies, by the Internal Appraisal Group (other than loans to related parties, for which external appraisers are used). The Internal Appraisal Group belongs to collateral management unit and is independent from the loan granting process in order to ensure that adequate appraisals are obtained and proper appraisal procedures are followed. 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.

Included in the value of collateral are contractual value of third party guarantees, which are capped at carrying value of loan due to their nature. The value of third party guarantees in the tables above amount to GEL 358,907 thousand, GEL 307,491 thousand and GEL 222,329 thousand for the years ended 31 December 2015,2014 and 2013 respectively. These third party guarantees are not taken into consideration when assessing the impairment allowance.

Refer to Note 39 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 33. Information on related party balances is disclosed in Note 41.

## 10 Investment Securities Available for Sale

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Corporate bonds | 174,916 | 25,034 | – |
| Certificates of Deposit of the National Bank of Georgia | 84,849 | 198,233 | 321,140 |
| Ministry of Finance of Georgia Treasury Bills | 33,445 | 476 | – |
| Georgian Government notes | 998 | 232,934 | 173,974 |
| **Total debt securities** | **294,208** | **456,677** | **495,114** |
| Corporate shares – quoted (VISA Inc.) | 9,335 | 6,140 | 4,858 |
| Corporate shares – unquoted | 3,767 | 3,693 | 679 |
| **Total investment securities available for sale** | **307,310** | **466,510** | **500,651** |

All debt securities except for corporate bonds are issued by Government of Georgia and National Bank of Georgia. Country rating of Georgia as assigned by international rating agency is BB- with stable outlook (affirmed in October 2015). 72% of corporate bonds are issued by triple A rated international financial institutions, whereas 28% is issued by A- rated IFI. Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 3,765 thousand (2014: GEL 3,693 thousand; 2013: GEL 679 thousand). 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 31 December 2015 investment securities available for sale carried at GEL 208,467 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2014: GEL 173,239 thousand; 2013: GEL 84,086 thousand). Refer to Note 17.

None of the debt securities available for sale are overdue or impaired.

## 10 Investment Securities Available for Sale continued

At 31 December 2015 the principal equity investment securities available for sale are:

| | | | Carrying value at 31 December | | |
|---|---|---|---|---|---|
| Name | Nature of business | Country of registration | 2015 | 2014 | 2013 |
| Visa Inc. | Card Processing | USA | 9,335 | 6,140 | 4,858 |
| LTD Caucasus Online | Telecommunication | Georgia | 3,014 | 3,014 | – |
| JSC GRDC | Property development | Netherlands Antilles | 365 | 365 | 365 |
| Other | | | 388 | 314 | 314 |
| **Total** | | | **13,102** | **9,833** | **5,537** |

The movements in investment securities available for sale are as follows:

| In thousands of GEL | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Carrying amount at 1 January** | | **466,510** | **500,651** | **407,733** |
| Purchases | | 475,417 | 848,679 | 755,433 |
| Disposals | | – | (51,369) | (61,626) |
| Reclassified to Bonds carried at amortised cost | | (372,063) | – | – |
| Redemption at maturity | | (265,107) | (843,695) | (619,902) |
| Revaluation | | (2,436) | (1,849) | 7,923 |
| Interest income accrued | 28 | 20,927 | 30,361 | 30,442 |
| Interest income received | | (15,938) | (16,246) | (18,210) |
| Impairment related to investment in equity security | | – | (22) | (1,142) |
| **Carrying amount at 31 December** | | **307,310** | **466,510** | **500,651** |

## 11 Bonds Carried at Amortised Cost

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Ministry of Finance Treasury Bills | 316,822 | – | – |
| Certificates of Deposit of the National Bank of Georgia | 39,870 | – | – |
| Georgian Government notes | 15,400 | – | – |
| **Total Bonds carried at amortised cost** | **372,092** | **–** | **–** |

All debt securities except for corporate bonds are issued by Government of Georgia and National Bank of Georgia. Country rating of Georgia as assigned by international rating agency is BB- with stable outlook (affirmed in October 2015).

The movements in investment securities available for sale are as follows:

| In thousands of GEL | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Gross amount at 1 January** | | – | – | – |
| Reclassified from available-for-sale securities | 10 | 372,063 | – | – |
| Purchases | | 183,084 | – | – |
| Redemption at maturity | | (193,416) | – | – |
| Interest income accrual | | 22,950 | – | – |
| Interest income received | | (12,589) | – | – |
| Disposal | | – | – | – |
| **Gross amount at 31 December** | | **372,092** | **–** | **–** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 11 Bonds Carried at Amortised Cost continued

Refer to Note 39 for the disclosure of the fair value of bonds carried at amortised cost. Interest rate analysis of bonds carried at amortised cost is disclosed in Note 33.

At 31 December 2015 bonds carried at amortised cost at GEL 136,472 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2014: GEL nil thousand; 2013: GEL nil). Refer to Note 17.

None of the bonds carried at amortised cost as at 31 December 2015 are overdue or impaired.

## 12 Other Financial Assets

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Receivables on guarantees | 16,435 | 11,728 | 11,660 |
| Receivables on credit card services and money transfers | 15,072 | 9,440 | 6,557 |
| Prepayments for purchase of leasing assets | 9,390 | 13,032 | 13,516 |
| Bank assurance income receivable | 4,450 | 1,548 | 705 |
| Receivable on terminated leases | 4,404 | 3,323 | 2,249 |
| Rental income receivables | 4,309 | 2,056 | 1,588 |
| Factored receivables | 2,859 | – | – |
| Other | 13,290 | 6,960 | 11,854 |
| Less: Provision for impairment | (5,892) | (4,230) | (3,080) |
| **Total other financial assets** | **64,317** | **43,857** | **45,049** |

Movements in the provision for impairment of other financial assets during 2015 are as follows:

| In thousands of GEL | Receivables on terminated leases | Other | Total |
|---|---|---|---|
| **Provision for impairment at 1 January 2015** | **2,573** | **1,657** | **4,230** |
| Provision for impairment during the year | 988 | 2,363 | **3,351** |
| Amounts written off during the year as uncollectible | – | (1,721) | **(1,721)** |
| Recovery of amounts previously written off | – | 32 | **32** |
| **Provision for impairment at 31 December 2015** | **3,561** | **2,331** | **5,892** |

Movements in the provision for impairment of other financial assets during 2014 are as follows:

| In thousands of GEL | Receivables on terminated leases | Other | Total |
|---|---|---|---|
| **Provision for impairment at 1 January 2014** | **2,054** | **1,026** | **3,080** |
| Provision for impairment during the year | 533 | 703 | **1,236** |
| Amounts written off during the year as uncollectible | (14) | (409) | **(423)** |
| Recovery of amounts previously written off | – | 337 | **337** |
| **Provision for impairment at 31 December 2014** | **2,573** | **1,657** | **4,230** |

## 12 Other Financial Assets continued

Movements in the provision for impairment of other financial assets during 2013 are as follows:

| In thousands of GEL | Receivables on terminated leases | Other | Total |
|---|---|---|---|
| **Provision for impairment at 1 January 2013** | **3,887** | **2,998** | **6,885** |
| Provision for impairment during the year | 236 | 2,000 | **2,236** |
| Amounts written off during the year as uncollectible | (2,069) | (4,022) | **(6,091)** |
| Recovery of amounts previously written off | – | 50 | **50** |
| **Provision for impairment at 31 December 2013** | **2,054** | **1,026** | **3,080** |

Analysis by credit quality of other financial receivables is as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Neither past due nor impairment | | | |
| – Receivables on credit card services and money transfers | 15,072 | 9,440 | 6,557 |
| – Prepayments for purchase of leasing assets | 9,390 | 13,032 | 13,516 |
| – Bank assurance income receivable | 4,450 | 1,548 | 705 |
| – Factored receivables | 2,859 | – | – |
| – Receivables on guarantees | 939 | 836 | 880 |
| – Rental income receivables | 4,309 | 2,056 | 1,588 |
| – Other | 10,823 | 5,159 | 9,537 |
| **Total neither past due nor impaired** | **47,842** | **32,071** | **32,783** |
| Past due but not impaired | | | |
| – Receivables on guarantees | | | |
| – more than 90 days overdue | 15,496 | 10,892 | 10,780 |
| **Total past due but not impaired** | **15,496** | **10,892** | **10,780** |
| Receivables individually determined to be impaired (gross) | | | |
| – Receivables on terminated leases | **4,404** | **3,323** | **2,249** |
| – less than 90 days overdue | **–** | – | – |
| – more than 90 days overdue | **4,404** | 3,323 | 2,249 |
| – Other receivables | **2,467** | **1,801** | **2,317** |
| – less than 90 days overdue | **–** | – | 504 |
| – more than 90 days overdue | **2,467** | 1,801 | 1,813 |
| **Total individually impaired (gross)** | **6,871** | **5,124** | **4,566** |
| **Less impairment provision** | **(5,892)** | **(4,230)** | **(3,080)** |
| **Total other financial assets** | **64,317** | **43,857** | **45,049** |

Credit rating of other financial assets neither past due nor impaired is as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| A+ | 2,018 | 483 | 953 |
| A | 8,700 | 5,910 | 3,875 |
| BBB+ | 286 | 400 | 214 |
| B+ | 322 | 59 | – |
| B | 2,281 | 897 | 310 |
| Not rated | 34,235 | 24,322 | 27,431 |
| **Total** | **47,842** | **32,071** | **32,783** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 12 Other Financial Assets continued
Receivables individually determined to be impaired include receivables on terminated leases and other receivables for which impairment provision was assessed individually. The primary factors by which the Group considers a receivable as impaired is overdue status. Receivables on terminated leases are under-collateralised, estimated fair value of collateral on these equals GEL 1,253 thousand (2014: GEL 808 thousand; 2013: GEL 95 thousand). The remaining assets are not collateralised.

## 13 Investments in Finance Lease
Investments in finance lease of GEL 75,760 thousand (2014: GEL 50,907 thousand; 2013: GEL 35,613 thousand) are represented by leases of equipment.

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 2 and 5 years | Total |
|---|---|---|---|
| **Finance lease payments receivable at 31 December 2015** | 54,546 | 43,091 | **97,637** |
| Unearned finance income | (13,147) | (7,992) | **(21,139)** |
| Impairment loss provision | (459) | (279) | **(738)** |
| **Present value of lease payments receivable at 31 December 2015** | **40,940** | **34,820** | **75,760** |
| **Finance lease payments receivable at 31 December 2014** | 36,414 | 27,662 | **64,076** |
| Unearned finance income | (8,380) | (4,594) | **(12,974)** |
| Impairment loss provision | (126) | (69) | **(195)** |
| **Present value of lease payments receivable at 31 December 2014** | **27,908** | **22,999** | **50,907** |
| **Finance lease payments receivable at 31 December 2013** | 24,775 | 20,592 | **45,367** |
| Unearned finance income | (5,941) | (3,636) | **(9,577)** |
| Impairment loss provision | (110) | (67) | **(177)** |
| **Present value of lease payments receivable at 31 December 2013** | **18,724** | **16,889** | **35,613** |

At 31 December 2015 the estimated fair value of financial lease receivables was GEL 75,760 thousand (2014: GEL 50,907 thousand; 2013: GEL 35,613 thousand). Refer to Note 39.

Movements in the provision for impairment of net investment in finance lease are as follows:

| In thousands of GEL | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| **Provision for impairment at the beginning of the year** | **195** | **177** | **114** |
| Provision for impairment during the year | 967 | 77 | 98 |
| Amounts written off during the year as uncollectible | (424) | (59) | (35) |
| **Provision for impairment at the end of the year** | **738** | **195** | **177** |

## 13 Investments in Finance Lease continued

Analysis by credit quality of net investment in finance lease is as follows:

| In thousands of GEL | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Neither past due nor impaired | | | |
| – Customers with more than two year experience | 20,612 | 9,570 | 8,750 |
| – New customers | 46,431 | 30,442 | 19,854 |
| **Total neither past due nor impaired** | **67,043** | **40,012** | **28,604** |
| Past due but not impaired | | | |
| – Less than 30 days overdue | 4,285 | 6,213 | 3,261 |
| – 31 to 90 days overdue | 1,694 | 1,479 | – |
| – 91 to 180 days overdue | – | 424 | – |
| – 180 days to 360 days overdue | – | 67 | – |
| **Total past due but not impaired** | **5,979** | **8,183** | **3,261** |
| Individually impaired | | | |
| – Not overdue | 1,639 | 1,926 | 2,419 |
| – 1 to 30 days overdue | 332 | 568 | 603 |
| – 31 days to 90 days overdue | 33 | 75 | 59 |
| – From 91 to 180 days | 950 | 197 | 583 |
| – From 181 to 360 days | 522 | – | 251 |
| – More than 360 days | – | 141 | 10 |
| **Individually impaired gross** | **3,476** | **2,907** | **3,925** |
| **Total investment in finance lease- gross** | **76,498** | **51,102** | **35,790** |
| Impairment loss provision | **(738)** | (195) | (177) |
| **Total net investment in finance lease** | **75,760** | **50,907** | **35,613** |

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, 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 that the Group considers whether a lease is impaired are deterioration of financial position of lessee, its overdue status and realisability of the leased asset.

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 finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.  The main types of collateral obtained are the following:

- Leased assets (inventory and equipment).
- Down payment.
- Real estate properties.
- Third party guarantees.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 13 Investments in Finance Lease continued

The effect of collateral at 31 December 2015:

| | Over-collateralised assets | | Under-collateralised assets | |
|---|---|---|---|---|
| In thousands of GEL | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Investment in leases | 69,048 | 103,416 | 7,450 | 5,532 |
| **Total** | **69,048** | **103,416** | **7,450** | **5,532** |

The effect of collateral at 31 December 2014:

| | Over-collateralised assets | | Under-collateralised assets | |
|---|---|---|---|---|
| In thousands of GEL | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Investment in leases | 45,608 | 79,134 | 5,494 | 3,616 |
| **Total** | **45,608** | **79,134** | **5,494** | **3,616** |

The effect of collateral at 31 December 2013:

| | Over-collateralised assets | | Under-collateralised assets | |
|---|---|---|---|---|
| In thousands of GEL | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Investment in leases | 32,280 | 62,169 | 3,510 | 3,229 |
| **Total** | **32,280** | **62,169** | **3,510** | **3,229** |

### 14 Other Assets

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Current other assets** | | | |
| Inventories of repossessed collateral | 85,216 | 60,480 | 49,920 |
| Other inventories | 3,666 | 2,961 | 3,130 |
| Prepayments for other assets | 3,134 | 3,724 | 3,006 |
| Prepaid taxes other than income tax | 2,659 | 1,718 | 402 |
| **Total current other assets** | **94,675** | **68,883** | **56,458** |
| **Non-current other assets** | | | |
| Assets repossessed from terminated leases | 4,543 | 3,797 | 1,752 |
| Prepayments for construction in progress | 2,578 | 2,078 | 5,016 |
| Assets purchased for leasing purposes | 865 | 545 | – |
| Prepaid insurance of leasing assets | 739 | 609 | 482 |
| Other | 512 | 1,863 | 1,367 |
| **Total non-current other assets** | **9,237** | **8,892** | **8,617** |
| **Total other assets** | **103,912** | **77,775** | **65,075** |

Inventories of repossessed collateral represents 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 of the 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 2015, collateral repossessed for settlement of impaired loans amounted to GEL 34 million (2014: GEL 26 million, 2013: GEL 50 million).

With respect to certain inventories of repossessed collaterals, the Group has granted the 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 12 months from the date of repossession during which the Group obliges not to dispose of the repossessed collateral to third parties. As of 31 December 2015, the carrying value of the inventories of repossessed collateral which were subject to the repurchase agreement was GEL 23,639 thousand (2014: GEL 33,283 thousand, 2013: GEL 19,840 thousand).

## 15 Premises, Equipment and Intangible Assets

| In thousands of GEL | Note | Land, premises and leasehold improvements | Office and computer equipment | Construction in progress | Total premises and equipment | Computer software licences | Total |
|---|---|---|---|---|---|---|---|
| Cost or valuation at 1 January 2013 | | 138,744 | 97,732 | 36,010 | **272,486** | 27,003 | **299,489** |
| Accumulated depreciation/amortisation Including accumulated impairment loss | | (20,724) | (59,206) | – | **(79,930)** | (8,186) | **(88,116)** |
| **Carrying amount at 1 January 2013** | | **118,020** | **38,526** | **36,010** | **192,556** | **18,817** | **211,373** |
| Additions | | 3,458 | 18,136 | 3,199 | **24,793** | 8,729 | 33,522 |
| Transfers | | 1,383 | 201 | (1,584) | **–** | – | – |
| Transfers from/(to) Investment Property, net | 16 | 244 | – | (345) | **(101)** | – | **(101)** |
| Disposals at cost | | (1,146) | (2,577) | (1,665) | **(5,388)** | (51) | **(5,439)** |
| Impairment charge to profit and loss | | – | (219) | 4 | **(215)** | – | **(215)** |
| Depreciation/amortisation charge | | (3,607) | (11,390) | – | **(14,997)** | (4,038) | **(19,035)** |
| Elimination of accumulated depreciation/amortisation on disposals | | 653 | 2,367 | – | **3,020** | 34 | **3,054** |
| **Carrying amount at 31 December 2013** | | **119,005** | **45,044** | **35,619** | **199,668** | **23,491** | **223,159** |
| Cost or valuation at 31 December 2013 | | 142,683 | 113,273 | 35,619 | **291,575** | 35,681 | 327,256 |
| Accumulated depreciation/amortisation including accumulated impairment loss | | (23,678) | (68,229) | – | **(91,907)** | (12,190) | (104,097) |
| **Carrying amount at 31 December 2013** | | **119,005** | **45,044** | **35,619** | **199,668** | **23,491** | **223,159** |
| Additions | | 800 | 26,684 | 1,383 | **28,867** | 19,884 | **48,751** |
| Transfers | | 1,396 | 161 | (1,557) | **–** | – | **–** |
| Transfers from/(to) Investment Property, net | 16 | (646) | – | – | **(646)** | – | **(646)** |
| Disposals at cost | | (1,509) | (9,355) | (178) | **(11,042)** | (334) | **(11,376)** |
| Impairment charge to profit and loss | | – | (220) | – | **(220)** | – | **(220)** |
| Depreciation/amortisation charge | | (3,214) | (14,267) | – | **(17,481)** | (5,493) | **(22,974)** |
| Elimination of accumulated depreciation/amortisation on disposals | | 270 | 9,276 | – | **9,546** | 208 | **9,754** |
| **Carrying amount at 31 December 2014** | | **116,102** | **57,323** | **35,267** | **208,692** | **37,756** | **246,448** |
| Cost or valuation at 31 December 2014 | | 142,724 | 130,543 | 35,267 | **308,534** | 55,231 | **363,765** |
| Accumulated depreciation/amortisation including accumulated impairment loss | | (26,622) | (73,220) | – | **(99,842)** | (17,475) | **(117,317)** |
| **Carrying amount at 31 December 2014** | | **116,102** | **57,323** | **35,267** | **208,692** | **37,756** | **246,448** |
| Additions | | 2,470 | 24,167 | 3,841 | **30,478** | 17,337 | **47,815** |
| Transfers | | 1,717 | (0) | (1,717) | **(0)** | – | **(0)** |
| Transfers from/(to) Investment Property, net | 16 | 646 | – | – | **646** | – | **646** |
| Disposals at cost | | (324) | (1,201) | (864) | **(2,389)** | (199) | **(2,588)** |
| Revaluation | | 15,249 | – | 13,506 | **28,755** | – | **28,755** |
| Effect of translation to presentation currency Cost | | (374) | (536) | – | **(910)** | (43) | **(953)** |
| Impairment charge to profit and loss | | 18 | (311) | – | **(293)** | (4,982) | **(5,275)** |
| Depreciation/amortisation charge | | (3,502) | (15,632) | – | **(19,134)** | (5,758) | **(24,892)** |
| Elimination of accumulated depreciation/amortisation on disposals | | 217 | 952 | – | **1,169** | 197 | **1,366** |
| Effect of translation to presentation currency Accumulated depreciation | | 362 | 391 | – | **753** | 36 | **789** |
| **Carrying amount at 31 December 2015** | | **132,581** | **65,153** | **50,033** | **247,767** | **44,344** | **292,111** |
| Cost or valuation at 31 December 2015 | | 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 at 31 December 2015** | | **132,581** | **65,153** | **50,033** | **247,767** | **44,344** | **292,111** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 15 Premises, Equipment and Intangible Assets continued

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and a new headquarter of the Bank. Upon completion, assets are transferred to premises.

Premises were revalued to market value on 30 September 2015. 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.

Management considers that the fair value has not changed significantly between 30 September and 31 December 2015.

| In thousands of GEL (except for range of inputs) | Carrying value at 31 December 2013 | Carrying value at 31 December 2014 | Carrying value at 31 December 2015 | Fair value as of 30 September 2015 (valuation date) | Valuation technique | Other key information | Unobservable inputs | Range of unobservable inputs (weighted average) |
|---|---|---|---|---|---|---|---|---|
| Office buildings | 56,502 | 56,468 | 51,115 | 51,115 | Sales comparison approach | Land | Price per square metres | 472 – 1643 (666) |
| | | | | | | Buildings | | 601 – 4,357 (1,300) |
| Branches | 82,437 | 75,878 | 124,069 | 124,069 | Sales comparison approach | Land | Price per square metres | 2 – 1,994 (196) |
| | | | | | | Buildings | | 374 – 11,514 (2,387) |

At 31 December 2015 the carrying amount of premises would have been GEL 79,952 thousand (2014: GEL 86,039 thousand; 2013: GEL 88,942 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2015 the carrying amount of construction in progress would have been GEL 27,284 thousand (2014: GEL 20,000 thousand; 2013: GEL 20,345 thousand) had the assets been carried at cost less impairment losses.

## 16 Investment Properties

| In thousands of GEL | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Gross book value at 1 January | | 78,699 | 84,879 | 34,973 |
| Accumulated depreciation at 1 January | | (2,483) | (1,496) | (668) |
| **Carrying amount at 1 January** | | **76,216** | **83,383** | **34,305** |
| Transfer from/to property, plant and equipment | 15 | – | 646 | 345 |
| Transfer from inventories of repossessed collateral | | 778 | 2,059 | 23,648 |
| Addition from foreclosure | | – | 772 | 38,638 |
| Disposals at cost | | (18,101) | (9,657) | (12,481) |
| Elimination of depreciation on disposal | | 829 | 466 | 130 |
| Transfer to property, plant and equipment | 15 | (646) | – | (244) |
| Depreciation charge | | (1,394) | (1,453) | (958) |
| Effect of translation to presentation currency | | (82) | – | – |
| Gross book value at 1 January | | 60,648 | 78,699 | 84,879 |
| Accumulated depreciation at 1 January | | (3,048) | (2,483) | (1,496) |
| **Carrying amount at 31 December** | | **57,600** | **76,216** | **83,383** |

At 31 December 2015, investment properties comprised of 8 lots (2014: 9 lots; 2013:12 lots) of land and 59 buildings (2014: 57 buildings; 2013: 58 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 105,972 thousand (2014: GEL 79,056 thousand; 2013: GEL 86,480 thousand).

## 16 Investment Properties continued

For disclosure purposes fair valuation exercise was carried out for Investment Properties as of 30 September 2015. 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. For details behind valuation refer to Note 3.

| In thousands of GEL (except for range of inputs) | Carrying value at 31 December 2015 | Fair value as of 30 September 2015 (valuation date) | Valuation technique | Unobservable inputs | Range of unobservable inputs (weighted average) |
|---|---|---|---|---|---|
| Land | 18,632 | 37,017 | Sales comparison approach | Price per square metres | 23 – 918 (196) |
| Buildings | 38,968 | 68,955 | Sales comparison approach | Price per square metres | 186 – 5,243 (956) |

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, are as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Not later than 1 year | 186 | 107 | 163 |
| Later than 1 year and not later than 5 years | – | 1,008 | 1,736 |
| **Total operating lease payments receivable** | **186** | **1,115** | **1,899** |

## 17 Due to Credit Institutions

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Due to other banks** | | | |
| Correspondent accounts and overnight placements | 47,342 | 37,247 | 4,894 |
| Deposits from banks | 25,936 | 47,802 | 42,358 |
| Short term loans from banks | – | 934 | – |
| **Total due to other banks** | **73,278** | **85,983** | **47,252** |
| **Other borrowed funds** | | | |
| Borrowings from foreign banks and financial institutions | 678,946 | 452,469 | 417,504 |
| Borrowings from local banks and financial institutions | 355,664 | 204,475 | 92,987 |
| Borrowings from Ministry of Finance | 5,686 | 6,358 | 8,063 |
| **Total other borrowed funds** | **1,040,296** | **663,302** | **518,554** |
| **Total amounts due to credit institutions** | **1,113,574** | **749,285** | **565,806** |

As at 31 December 2015, TBC Kredit had breached certain covenants under loan agreements with a number of foreign financial institution lenders. The carrying amount of the affected loans as at 31 December 2015 was GEL 39,047 thousand. As at 31 December 2015, TBC Kredit had obtained the waiver for the borrowings with carrying amount of GEL 3,660 thousand. The waivers for borrowings with carrying amounts of GEL 18,899 thousand and 16,488 thousand were obtained in January 2016 and February 2016 respectively. These breaches have been waived till 31 December 2015, 31 January 2016 and 29 February 2016 for the borrowings with carrying amounts of GEL 26,474 thousand, GEL 10,165 thousand and GEL 2,408 thousand respectively.

As at 31 December 2015 for the purposes of maturity analysis of financial liabilities (Note 33) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 18 Customer Accounts

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| **State and public organisations** | | | |
| – Current/settlement accounts | 152,438 | 130,008 | 134,518 |
| – Term deposits | 86,828 | 47,084 | 72,463 |
| **Other legal entities** | | | |
| – Current/settlement accounts | 1,276,141 | 1,042,559 | 935,083 |
| – Term deposits | 126,042 | 125,605 | 134,143 |
| **Individuals** | | | |
| – Current/demand accounts | 944,215 | 684,521 | 621,211 |
| – Term deposits | 1,592,267 | 1,292,651 | 989,465 |
| **Total customer accounts** | **4,177,931** | **3,322,428** | **2,886,883** |

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| In thousands of GEL | Amount | % | Amount | % | Amount | % |
| Individual | 2,536,482 | 61% | 1,977,172 | 60% | 1,610,676 | 56% |
| Trade and Service | 531,020 | 13% | 435,414 | 13% | 344,803 | 12% |
| Consumer Goods and Automobile Trading | 162,026 | 4% | 86,729 | 3% | 72,739 | 2% |
| Transportation | 135,356 | 3% | 101,939 | 3% | 129,096 | 4% |
| Construction | 133,623 | 3% | 136,429 | 4% | 131,427 | 5% |
| Energy | 97,926 | 2% | 48,094 | 1% | 57,179 | 2% |
| Real Estate | 66,551 | 2% | 72,843 | 2% | 57,798 | 2% |
| Oil and Gas | 54,711 | 1% | 75,562 | 2% | 147,005 | 5% |
| Food Industry | 41,142 | 1% | 62,149 | 2% | 97,421 | 3% |
| Communication | 33,933 | 1% | 57,677 | 2% | 28,909 | 1% |
| Agriculture | 22,127 | 1% | 17,755 | 1% | 23,772 | 1% |
| Manufacturing | 15,800 | 0% | 18,869 | 1% | 21,013 | 1% |
| Mining | 13,380 | 0% | 7,541 | 0% | 21,746 | 1% |
| Other | 333,854 | 8% | 224,255 | 6% | 143,299 | 5% |
| **Total customer accounts** | **4,177,931** | **100%** | **3,322,428** | **100%** | **2,886,883** | **100%** |

At 31 December 2015 the Group had 140 customers (2014: 125 customers; 2013: 97 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 1,432,724 thousand (2014: GEL 1,111,385 thousand; 2013: GEL 915,407 thousand) or 34% of total customer accounts (2014: 33%; 2013: 32%).

At 31 December 2015 included in customer accounts are deposits of GEL 999 thousand and GEL 77,304 thousand (2014: GEL 636 thousand and GEL 71,902 thousand; 2013: 9,652 thousand and GEL 38,973 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 35.

Refer to Note 39 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 41.

## 19 Debt Securities in Issue

| In thousands of GEL | Currency | Carrying amount in GEL as at 31 December 2015 | Maturity date | Coupon rate | Effective interest rate |
|---|---|---|---|---|---|
| Bonds issued on Georgian market | USD | 12,220 | 21-Jul-16 | 9.0% | 9.7% |
| Bonds issued on Georgian market | USD | 4,798 | 3-Sep -17 | 8.4% | 9.2% |
| Bonds issued on Azerbaijani market | AZN | 4,696 | 16-Apr-16 | 9.0% | 9.7% |
| **Total debt securities in issue** | | **21,714** | | | |

| In thousands of GEL | Currency | Carrying amount in GEL as at 31 December 2014 | Maturity date | Coupon rate | Effective interest rate |
|---|---|---|---|---|---|
| Bonds issued on Georgian market | USD | 9,469 | 21-Jul-16 | 9.0% | 9.7% |
| Bonds issued on Azerbaijani market | AZN | 7,236 | 16-Apr-16 | 9.0% | 9.7% |
| Bonds issued on Georgian market | USD | 3,718 | 3-Sep-17 | 8.4% | 9.2% |
| **Total debt securities in issue** | | **20,423** | | | |

| In thousands of GEL | Currency | Carrying amount in GEL as at 31 December 2013 | Maturity Date | Coupon rate | Effective interest rate |
|---|---|---|---|---|---|
| Bonds issued on Azerbaijani market | AZN | 4,474 | 1-Jan-14 | 7.0% | 8.4% |
| **Total debt securities in issue** | | **4,474** | | | |

Refer to Note 39 for the disclosure of the fair value of debt securities in issue.

## 20 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 at 1 January 2013** | **2,332** | **842** | **3,000** | **6,174** |
| Additions less releases recorded in profit or loss | 2,374 | 4,085 | 1,315 | **7,774** |
| Utilisation of provision | (553) | – | (1,015) | **(1,568)** |
| **Carrying amount at 31 December 2013** | **4,153** | **4,927** | **3,300** | **12,380** |
| Additions less releases recorded in profit or loss | 759 | (1,661) | 5,500 | **4,598** |
| Utilisation of provision | – | – | (5,080) | **(5,080)** |
| **Carrying amount at 31 December 2014** | **4,912** | **3,266** | **3,720** | **11,898** |
| Additions less releases recorded in profit or loss | (3,440) | 2,323 | 1,102 | **(15)** |
| Utilisation of provision | – | – | (2,422) | **(2,422)** |
| **Carrying amount at 31 December 2015** | **1,472** | **5,589** | **2,400** | **9,461** |

***Credit related commitments and performance guarantees:*** Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

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 classifies borrowers as significant and non-significant ones. Triggered significant guarantees and letter of credits are assessed for impairment on an individual basis, whereas for not triggered significant and all non-significant ones the Bank estimates allowances applying statistical risk parameters, such as credit conversion factor and loss given default.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 20 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges continued

Undrawn credit lines are classified as committed and uncommitted exposures, with impairment allowance created for committed ones. The undrawn part of the credit lines is multiplied by the respective credit conversion factor and provisioned in the similar manner as corresponding on balance sheet exposures.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year end.

## 21 Other Financial Liabilities

Other financial liabilities comprise the following:

| In thousands of GEL | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Debit or credit card payables | | 12,478 | 8,710 | 2,488 |
| Trade payables | | 10,264 | 9,835 | 8,129 |
| Security deposits for finance lease | | 6,022 | 6,915 | 6,098 |
| Derivative financial liabilities | 38 | 2,411 | 5,639 | 4,405 |
| Other accrued liabilities | | 8,260 | 10,247 | 3,730 |
| **Total other financial liabilities** | | **39,435** | 41,346 | 24,850 |

Refer to Note 39 for disclosure of the fair value of other financial liabilities.

## 22 Other Liabilities

Other liabilities comprise the following:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Accrued employee benefit costs | 22,385 | 21,502 | 17,740 |
| Taxes payable other than on income | 11,584 | 10,232 | 9,705 |
| Advances received | 4,764 | 977 | 1,297 |
| Other | 1,894 | 2,264 | 2,563 |
| **Total other liabilities** | **40,627** | **34,975** | **31,305** |

All of the above liabilities are expected to be settled within twelve months after the year end.

## 23 Subordinated Debt

At 31 December 2015, subordinated debt comprised:

| In thousands of GEL | Grant Date | Maturity date | Currency | Outstanding amount in original currency | Outstanding amount in GEL |
|---|---|---|---|---|---|
| European Bank for Reconstruction and Development | 23-Apr-09 | 12-Nov-18 | USD | 18,729 | 44,855 |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | 19-Feb-08 | 15-Jul-18 | USD | 10,427 | 24,971 |
| International Financial Corporation | 23-Apr-09 | 12-Nov-18 | USD | 18,716 | 44,823 |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | 26-Jun-13 | 15-Jun-20 | USD | 7,466 | 17,880 |
| Green for Growth Fund | 18-Dec-15 | 18-Dec-25 | USD | 14,892 | 35,666 |
| European Fund for Southeast Europe | 18-Dec-15 | 18-Dec-25 | USD | 7,448 | 17,837 |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. | 19-Dec-13 | 15-Apr-23 | USD | 35,373 | 84,715 |
| Kreditanstalt für Wiederaufbau Bankengruppe | 10-Jun-14 | 8-May-21 | GEL | 6,162 | 6,162 |
| Kreditanstalt für Wiederaufbau Bankengruppe | 4-May-15 | 8-May-21 | GEL | 6,739 | 6,739 |
| **Total subordinated debt** | | | | | **283,648** |

## 23 Subordinated Debt continued

At 31 December 2014, subordinated debt comprised:

| In thousands of GEL | Grant date | Maturity date | Currency | Outstanding amount in original currency | Outstanding amount in GEL |
|---|---|---|---|---|---|
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. | 19-Dec-13 | 15-Apr-23 | USD | 35,299 | 65,782 |
| International Financial Corporation | 23-Apr-09 | 12-Nov-18 | USD | 18,655 | 34,766 |
| European Bank for Reconstruction and Development | 23-Apr-09 | 12-Nov-18 | USD | 18,676 | 34,804 |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. | 23-Apr-09 | 12-Nov-18 | USD | 7,067 | 13,169 |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | 19-Feb-08 | 15-Jul-18 | USD | 10,410 | 19,400 |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | 26-Jun-13 | 15-Jun-20 | USD | 7,453 | 13,890 |
| Kreditanstalt für Wiederaufbau Bankengruppe | 10-Jun-14 | 8-May-21 | GEL | 6,204 | 6,204 |
| **Total subordinated debt** | | | | | **188,015** |

At 31 December 2013, subordinated debt comprised:

| In thousands of GEL | Grant date | Maturity date | Outstanding amount in original currency USD | Outstanding amount in GEL |
|---|---|---|---|---|
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. | 19-Dec-13 | 15-Apr-23 | 34,905 | 60,605 |
| International Financial Corporation | 23-Apr-09 | 12-Nov-18 | 18,558 | 32,222 |
| European Bank for Reconstruction and Development | 23-Apr-09 | 12-Nov-18 | 18,585 | 32,269 |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | 19-Feb-08 | 15-Jul-18 | 10,394 | 18,048 |
| Deutsche Investitions und Entwicklungsgesellschaft MBH | 26-Jun-13 | 15-Jun-20 | 7,441 | 12,920 |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. | 23-Apr-09 | 12-Nov-18 | 7,032 | 12,210 |
| **Total subordinated debt** | | | **96,915** | **168,274** |

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

Refer to Note 39 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 41.

## 24 Share Capital

| In thousands of GEL except for number of shares | Number of vested shares | Share capital | Share premium | Total |
|---|---|---|---|---|
| **At 1 January 2013** | **161,419** | **16,143** | **231,501** | **247,644** |
| Shares issued | 2,411 | 240 | 7,097 | **7,337** |
| Increase in share capital arising from share-based payment | 1,157 | 116 | 4,026 | **4,142** |
| **At 31 December 2013** | **164,987** | **16,499** | **242,624** | **259,123** |
| Share split | 41,081,763 | – | – | **–** |
| Shares issued | 7,692,308 | 3,077 | 172,493 | **175,570** |
| Transaction costs recognised directly in equity | – | – | (9,459) | **(9,459)** |
| **At 31 December 2014** | **48,939,058** | **19,576** | **405,658** | **425,234** |
| Increase in share capital arising from share-based payment | 30,710 | 12 | 416 | **428** |
| Treasury shares returned | (1,405) | (1) | (19) | **(20)** |
| Transaction costs recognised directly in equity | – | – | 1,419 | **1,419** |
| **At 31 December 2015** | **48,968,363** | **19,587** | **407,474** | **427,061** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 24 Share Capital continued

On 4 March 2014, shareholders of the Bank approved the spilt of the ordinary shares 250-for-1 and authorised for issue additional 10,445,387 shares. Following this decision, the total authorised number of ordinary shares as at 31 December 2015 is 56,206,527 shares (31 December 2014: 53,090,637 shares; 31 December 2013: 170,581 shares), with a nominal value of GEL 0.4 per share after the split (31 December 2014: GEL 0.4 per share; 31 December 2013: GEL 100 per share). All issued Ordinary shares are fully paid.

In accordance with Georgian legislation, the number of issued Ordinary Shares and relevant amounts of share capital and share premium differ from presentation above due to accounting for share-based payment transactions described in note 25.

| In thousands of GEL except for number of shares | Number of outstanding shares | Share capital | Share premium | Total |
|---|---|---|---|---|
| **At 1 January 2013** | **161,419** | **16,143** | **231,501** | **247,644** |
| Shares issued | 2,411 | 240 | 7,097 | **7,337** |
| Increase in share capital arising from share-based payment | 1,157 | 116 | 4,026 | **4,142** |
| **At 31 December 2013** | **164,987** | **16,499** | **242,624** | **259,123** |
| Registering shares in the name of employees under share-based payment arrangement | 1,229 | 123 | 4,156 | **4,279** |
| Share split | 41,387,784 | – | – | **–** |
| Shares issued | 7,692,308 | 3,077 | 172,493 | **175,570** |
| Transaction costs recognised directly in equity | – | – | (9,459) | **(9,459)** |
| **At 31 December 2014** | **49,246,308** | **19,699** | **409,814** | **429,513** |
| Registering shares in the name of employees under share based payment arrangement | 284,560 | 113 | 3,850 | **3,963** |
| Treasury shares returned | (1,405) | (1) | (19) | **(20)** |
| **At 31 December 2015** | **49,529,463** | **19,811** | **413,645** | **433,456** |

All ordinary shares rank equally except for 561,100 unvested shares that were registered in the name of the management under share-based payment arrangement and which do not have voting rights before service conditions are met (see Note 25). These unvested shares are still included in number of outstanding shares per NBG accounting rules. All other shares carry one vote.

In June 2014, 19,684,322 shares of the Bank were sold in the form of Global Depositary Receipts ("GDRs") on London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,692,308 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Bank of New York ("BNY") acts as a depositary of these shares. Each GDR represents 1 ordinary share of the Bank.

At the reporting date the Bank has 3,115,890 authorised shares reserved for issuance under share-based payment arrangement (31 December 2014: 1,037,500 shares; 31 December 2013: 1,037,500 shares). For description of share-based payment scheme refer to Note 25. Per management's estimate, the total number of shares that the Bank will eventually issue under the share-based payment arrangement schemes for years 2013 – 2018 approximates 2,787,313 (31 December 2014: 803,336; 31 December 2013: 699,250).

Transaction costs, that is, incremental costs, are costs directly attributable to the equity transaction that otherwise would have been avoided had the equity instruments not been issued. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. GEL 1,419 thousand in 2015 relates to income tax benefit on transaction costs of GEL 9,459 incurred in 2014. The Bank recorded tax benefit on the uncertain position only after receiving formal approval from the Revenue Service of Georgia.

Included in transaction costs are fees paid to investment bankers, lawyers, underwriters and other professional advisers involved in the initial public offering.

## 25 Share-based Payments

**June 2013 arrangement:**

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013–2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. Authorised numbers of new shares have increased to 1,037,500 new shares 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, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded 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 date of the award. The team goals primarily relate to achieving 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 achievement of team goals. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them out of the total bonus pool. After awards, these shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013, 2014 and 2015 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to June 2019.

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share-based payment arrangements. All of the put options became null and void upon the listing of the Bank's shares on 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 recognised for the put options.

The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 732,000 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date, as adjusted for the effect of 250-for-1 share split, is evaluated at GEL 13,93 per share and the valuation was carried out by an external valuator. The valuation was performed by applying the income and market approaches. The market approach involved estimating market capitalisation 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 banks that operated in the Black Sea region and Central and Eastern Europe and had similar portfolio mix and growth priorities as TBC Bank. Income approach involved discounting free cash flows to equity estimated over 10-year horizon. When developing the projections, the following major assumptions were made:

- Over 2013-2023 period, 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 estimated 10.2% in 2013 till it would stabilise at 5.8% in 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 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 was then assumed to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using 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%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 25 Share-based Payments continued

The final valuation was based on income approach, with market approach serving as a reasonableness check on the result obtained by the income approach. The value of Bank's equity so calculated was then divided by the number of Ordinary Shares issued as of valuation date and further reduced with the discount for lack of control.

**June 2015 arrangement:**

In June 2015, Supervisory Board of the Bank approved new management compensation for top and middle management and authorised 3,115,890 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. The new system will be used for the years 2015 through 2018 and it will replace the system introduced in June 2013 meaning that performance evaluation as well as 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, certain number of the shares will be awarded to the top management and most of the middle managers of the Group. The performance conditions are divided into (i) corporate and (ii) individual key performance indicators (KPIs). 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 in respect of customer experience and employee engagement. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them. According to the scheme, members of top management will also receive the fixed number of shares. After awards, all the shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2015, 2016, 2017 and 2018 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to March 2022.

The Group considers 17 June 2015 as the grant date. As of 31 December 2015 based on management's best estimate of achievement of targets 1,908,960 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date equalled to GEL 24.64 per share as quoted on London Stock Exchange.

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 2015** | **31 December 2014** | **31 December 2013 (not adjusted for the share split)** |
|---|---|---|---|
| Number of unvested shares at the beginning of the period | **803,336** | **2,797** | **1,157** |
| Number of shares granted | 1,908,963 | – | 2,797 |
| Increase in the number of unvested shares due to 250-for-1 split | – | 696,453 | – |
| Change in estimate of number of shares expected to vest based on performance conditions | 75,016 | 104,086 | – |
| Number of shares vested | (30,710) | – | (1,157) |
| **Number of unvested shares at the end of the period** | **2,756,605** | **803,336** | **2,797** |
| Value at grant date per share (GEL) old remuneration system | 13.93 | 13.93 | 3,482 |
| Value at grant date per share (GEL) new remuneration system | 24.64 | – | – |
| Expense on equity-settled part (GEL thousand) | 8,559 | 2,592 | 2,032 |
| Expense on cash-settled part (GEL thousand) | 5,967 | 1,710 | 2,055 |
| **Expense recognised as staff cost during the period (GEL thousand)** | **14,526** | **4,302** | **4,087** |

## 25 Share-based Payments continued

Liability in respect of the cash-settled part of the award amounted to GEL 6,560 thousand as of 31 December 2015 (2014: GEL 1,710 thousand; 2013: GEL 2,055 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 2015 based on level of achievement of key performance indicators management has reassessed the number of shares that will have to be issued to the participants of share-based payment system and increased estimated number of shares to vest by 75,016 (31 December 2014: 104,086, 31 December 2013: nil).

## 26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

| In thousands of GEL except for number of shares | 2015 | 2014 | 2013 |
|---|---|---|---|
| Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share-based payment scheme – refer to Note 25) | 216,400 | 156,469 | 121,616 |
| Weighted average number of ordinary shares in issue | 48,962,112 | 45,524,938 | 40,978,000 |
| **Basic earnings per Ordinary Share attributable to the owners of the Bank (expressed in GEL per share)** | **4.4** | **3.4** | **3.0** |

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year:

| In thousands of GEL except for number of shares | 2015 | 2014 | 2013 |
|---|---|---|---|
| Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share-based payment scheme – refer to Note 25) | 218,227 | 157,071 | 121,616 |
| Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period | 49,607,204 | 45,968,817 | 41,055,500 |
| **Diluted earnings per Ordinary Share attributable to the owners of the Bank (expressed in GEL per share)** | **4.4** | **3.4** | **3.0** |

Weighted average number of ordinary shares in issue as at 31 December 2013 has been adjusted for the 250-for-1 share split that took place in March 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 27 Segment Analysis

The chief operating decision maker which is the Management Board reviews the Group's internal reporting in order to assess performance and allocate resources. In 2014, the Board has changed the way it analyses certain information in order to enhance the control and monitoring of the Group's performance. This has resulted in the creation of a new segment "Corporate Centres and Other Operations" and a change in the presentation of segment information. In 2015, following the merger of Bank Constanta the Board has revised the definition of segments in order to further enhance the control and monitoring of the Group's performance. This has resulted in a transfer of certain customers between segments. Comparative information as at 31 December 2014 and 31 December 2013 has not been updated due to impracticability.

The operating segments were determined as at 31 December 2014 and 31 December 2013 as follows:

- Corporate – business customers which have annual revenue of GEL 8.0 million or more or have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other significant legal entity customers may also be assigned the status of being a corporate customer, on a discretionary basis; for example, if they are regarded by the Group as having strong growth potential.
- SME – business customers that are not included either in the corporate or micro segments.
- Micro – all business customers of Bank Constanta, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150 thousand.
- Retail – all individual customers of the Group as well as customers that have been granted gold-pawn loans.
- Corporate Centres and Other Operations – comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

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

- Corporate – all business customers that have annual revenue of GEL 8.0 million or more or 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.
- SME – all business customers that are not included in either Corporate or Micro segments; Some other legal entity customers may also be assigned to the SME segment on a discretionary basis.
- Micro – all business customers with loans below USD 70K, as well as pawn loans, credit cards and cash cover loans granted in TBC Bank Constanta branches, and/or have deposits up to USD 20 in urban areas and up to USD 100 in rural areas of the customers of TBC Bank Constanta branches. Some other customers may also be assigned to the Micro segment on a discretionary basis.
- Retail – all individual customers that are not included in the other categories.
- Corporate Centres and Other Operations – comprise 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.

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 33.

## 27 Segment Analysis continued

Segment information for the reportable segments of the Group for the years ended 31 December 2015, 2014 and 2013 is set out below:

| In thousands of GEL | Corporate | Retail | SME | Micro | Corporate centre and other operations | Total |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| – Interest income | 135,615 | 271,083 | 68,303 | 107,326 | 66,732 | **649,059** |
| – interest expense | (31,189) | (94,656) | (9,376) | (2,268) | (99,396) | **(236,885)** |
| – Inter-segment interest income/(expense) | (34,855) | 12,828 | (2,455) | (26,788) | 51,270 | **–** |
| – **Net interest income** | **69,571** | **189,255** | **56,472** | **78,270** | **18,606** | **412,174** |
| – Fee and commission income | 18,397 | 72,242 | 11,739 | 6,880 | 4,579 | **113,837** |
| – Fee and commission expense | (3,864) | (31,698) | (3,917) | (1,242) | (825) | **(41,546)** |
| – **Net Fee and commission income** | **14,533** | **40,544** | **7,822** | **5,638** | **3,754** | **72,291** |
| – Gains less losses from trading in foreign currencies | 23,647 | 15,038 | 21,488 | 1,787 | 2,682 | **64,642** |
| – Foreign exchange translation losses less gains | – | – | – | – | 2,579 | **2,579** |
| – Net gain from derivative financial instruments | – | – | – | – | (575) | **(575)** |
| – Other operating income | 13,808 | 2,299 | 1,089 | 95 | 8,592 | **25,883** |
| – **Other operating non-interest income** | **37,455** | **17,337** | **22,577** | **1,882** | **13,278** | **92,529** |
| – Provision for loan impairment | (15,396) | (29,004) | (11,628) | (16,763) | – | **(72,791)** |
| – Provision for performance guarantees and credit related commitments | 4,581 | (4,113) | 731 | (82) | – | **1,117** |
| – Provision for impairment of investments in finance lease | – | – | – | – | (967) | **(967)** |
| – Provision for impairment of other financial assets | (561) | (735) | (388) | (317) | (1,350) | **(3,351)** |
| – **Profit before administrative and other expenses and income taxes** | **110,183** | **213,284** | **75,586** | **68,628** | **33,321** | **501,002** |
| – Staff costs | (16,947) | (69,497) | (16,439) | (30,470) | (9,424) | **(142,777)** |
| – Depreciation and amortisation | (1,092) | (15,295) | (2,138) | (6,436) | (1,325) | **(26,286)** |
| – Provision for liabilities and charges | – | – | – | – | (1,102) | **(1,102)** |
| – Administrative and other operating expenses | (4,879) | (46,438) | (7,712) | (14,531) | (9,404) | **(82,964)** |
| – **Operating expenses** | **(22,918)** | **(131,230)** | **(26,289)** | **(51,437)** | **(21,255)** | **(253,129)** |
| – **Profit before tax** | **87,265** | **82,054** | **49,297** | **17,191** | **12,066** | **247,873** |
| – Income tax expense | (13,384) | (11,119) | (7,719) | (2,578) | 5,624 | **(29,176)** |
| – **Profit for the year** | **73,881** | **70,935** | **41,578** | **14,613** | **17,690** | **218,697** |
| Total gross loans and advances to customers reported | 1,500,104 | 2,019,969 | 625,628 | 493,328 | – | **4,639,029** |
| Total customer accounts reported | 1,001,341 | 2,469,878 | 633,211 | 73,501 | – | **4,177,931** |
| Total credit related commitments and performance guarantees | 446,380 | 130,402 | 77,781 | 4,412 | – | **658,975** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 27 Segment Analysis continued

| In thousands of GEL | Corporate | Retail | SME | Micro | Corporate centre and other operations | Total |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| – Interest income | 116,404 | 237,804 | 53,739 | 57,573 | 46,837 | **512,357** |
| – interest expense | (21,845) | (80,808) | (7,196) | (192) | (63,668) | **(173,709)** |
| – Inter-segment interest income/(expense) | (42,246) | 7,499 | (3,640) | (18,468) | 56,855 | **–** |
| – **Net interest income** | **52,313** | **164,495** | **42,903** | **38,913** | **40,024** | **338,648** |
| – Fee and commission income | 18,093 | 46,368 | 9,268 | 3,498 | 10,976 | **88,203** |
| – Fee and commission expense | (1,312) | (26,230) | (906) | (911) | (164) | **(29,523)** |
| – **Net Fee and commission income** | **16,781** | **20,138** | **8,362** | **2,587** | **10,812** | **58,680** |
| – Gains less losses from trading in foreign currencies | 12,456 | 9,932 | 13,286 | 1,820 | 2,236 | **39,730** |
| – Foreign exchange translation losses less gains | – | – | – | – | 2,359 | **2,359** |
| – Net gain from derivative financial instruments | – | – | – | – | (683) | **(683)** |
| – Other operating income | – | – | – | – | 19,600 | **19,600** |
| – **Other operating non-interest income** | **12,456** | **9,932** | **13,286** | **1,820** | **23,512** | **61,006** |
| – Provision for loan impairment | (18,995) | (22,046) | (1,625) | (6,006) | – | **(48,672)** |
| – Provision for performance guarantees and credit related commitments | 885 | – | 17 | – | – | **902** |
| – Provision for impairment of investments in finance lease | – | – | – | – | (77) | **(77)** |
| – Provision for impairment of other financial assets | – | – | – | – | (1,236) | **(1,236)** |
| – Impairment of investment securities available for sale | – | – | – | – | (22) | **(22)** |
| – **Profit before administrative and other expenses and income taxes** | **63,440** | **172,519** | **62,943** | **37,314** | **73,013** | **409,229** |
| – Staff costs | (11,826) | (55,427) | (10,755) | (15,808) | (29,019) | **(122,835)** |
| – Depreciation and amortisation | (780) | (13,132) | (1,915) | (3,579) | (5,021) | **(24,427)** |
| – Provision for liabilities and charges | – | – | – | – | (5,500) | **(5,500)** |
| – Administrative and other operating expenses | (4,432) | (36,026) | (4,981) | (9,600) | (18,509) | **(73,548)** |
| – **Operating expenses** | **(17,038)** | **(104,585)** | **(17,651)** | **(28,987)** | **(58,049)** | **(226,310)** |
| – **Profit before tax** | **46,402** | **67,934** | **45,292** | **8,327** | **14,964** | **182,919** |
| – Income tax expense | (6,207) | (9,087) | (6,059) | (1,114) | (2,001) | **(24,468)** |
| – **Profit for the year** | **40,195** | **58,847** | **39,233** | **7,213** | **12,963** | **158,451** |
| Total gross loans and advances to customers reported | 1,231,729 | 1,666,913 | 533,919 | 273,699 | – | **3,706,260** |
| Total customer accounts reported | 832,555 | 1,977,172 | 507,816 | 4,885 | – | **3,322,428** |
| Total credit related commitments and performance guarantees | 515,026 | 125,250 | 62,578 | 2,598 | – | **705,452** |

## 27 Segment Analysis continued

| In thousands of GEL | Corporate | Retail | SME | Micro | Corporate centre and other operations | Total |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| – Interest income | 131,385 | 207,028 | 44,370 | 51,185 | 40,828 | **474,796** |
| – interest expense | (35,721) | (96,144) | (7,622) | (426) | (52,233) | **(192,146)** |
| – Inter-segment interest income/(expense) | (50,675) | 24,157 | (3,679) | (15,045) | 45,242 | **–** |
| – **Net interest income** | **44,989** | **135,041** | **33,069** | **35,714** | **33,837** | **282,650** |
| – Fee and commission income | 15,881 | 40,823 | 7,349 | 2,444 | 7,864 | **74,361** |
| – Fee and commission expense | (4,688) | (17,627) | (1,089) | (620) | (277) | **(24,301)** |
| – **Net Fee and commission income** | **11,193** | **23,196** | **6,260** | **1,824** | **7,587** | **50,060** |
| – Gains less losses from trading in foreign currencies | 12,522 | 8,614 | 9,244 | 1,513 | 6,001 | **37,894** |
| – Foreign exchange translation losses less gains | – | – | – | – | (5,901) | **(5,901)** |
| – Net gain from derivative financial instruments | – | – | – | – | 613 | **613** |
| – Other operating income | – | – | – | – | 16,136 | **16,136** |
| – **Other operating non-interest income** | **12,522** | **8,614** | **9,244** | **1,513** | **16,849** | **48,742** |
| – Provision for loan impairment | (17,035) | (13,377) | (88) | (2,471) | – | **(32,971)** |
| – Provision for performance guarantees and credit related commitments | (6,124) | – | (335) | – | – | **(6,459)** |
| – Provision for impairment of investments in finance lease | – | – | – | – | (98) | **(98)** |
| – Provision for impairment of other financial assets | – | – | – | – | (2,236) | **(2,236)** |
| – Impairment of investment securities available for sale | – | – | – | – | (1,142) | **(1,142)** |
| – **Profit before administrative and other expenses and income taxes** | **45,545** | **153,474** | **48,150** | **36,580** | **54,797** | **338,546** |
| – Staff costs | (8,329) | (49,949) | (9,909) | (14,138) | (26,288) | **(108,613)** |
| – Depreciation and amortisation | (753) | (11,862) | (1,904) | (2,061) | (3,413) | **(19,993)** |
| – Provision for liabilities and charges | – | – | – | – | (1,315) | **(1,315)** |
| – Administrative and other operating expenses | (3,175) | (32,693) | (4,135) | (10,130) | (18,559) | **(68,692)** |
| – **Operating expenses** | **(12,257)** | **(94,504)** | **(15,948)** | **(26,329)** | **(49,575)** | **(198,613)** |
| – **Profit before tax** | **33,288** | **58,970** | **32,202** | **10,251** | **5,222** | **139,933** |
| – Income tax expense | (3,726) | (6,602) | (3,604) | (1,147) | (584) | **(15,663)** |
| – **Profit for the year** | **29,562** | **52,368** | **28,598** | **9,104** | **4,638** | **124,270** |
| Total gross loans and advances to customers reported | 1,157,334 | 1,207,514 | 392,446 | 201,287 | – | **2,958,581** |
| Total customer accounts reported | 819,779 | 1,610,676 | 451,985 | 4,443 | – | **2,886,883** |
| Total credit related commitments and performance guarantees | 397,575 | 117,260 | 71,056 | 1,979 | – | **587,870** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 27 Segment Analysis continued

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

| In thousands of GEL | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Total segment assets (gross loans and advances to customers) | 4,639,029 | 3,706,260 | 2,958,581 |
| Provision for loan impairment | (194,143) | (149,764) | (156,869) |
| Cash and cash equivalents | 720,347 | 532,118 | 390,465 |
| Mandatory cash balances with National Bank of Georgia | 471,490 | 336,075 | 295,332 |
| Due from other banks | 11,042 | 33,704 | 1,708 |
| Investment securities available for sale | 307,310 | 466,510 | 500,651 |
| Bonds carried at amortised cost | 372,092 | – | – |
| Current income tax prepayment | 9,856 | 251 | 6,202 |
| Deferred income tax asset | 1,546 | 383 | – |
| Other financial assets | 64,317 | 43,857 | 45,049 |
| Investments in finance leases | 75,760 | 50,907 | 35,613 |
| Other assets | 103,912 | 77,775 | 65,075 |
| Premises and equipment | 247,767 | 208,692 | 199,668 |
| Intangible assets | 44,344 | 37,756 | 23,491 |
| Investment properties | 57,600 | 76,216 | 83,383 |
| Goodwill | 2,726 | 2,726 | 2,726 |
| **Total assets per statement of financial position** | **6,934,995** | **5,423,466** | **4,451,075** |

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

| In thousands of GEL | 31 December 2015 | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Total segment liabilities (customer accounts) | 4,177,931 | 3,322,428 | 2,886,883 |
| Due to Credit institutions | 1,113,574 | 749,285 | 565,806 |
| Debt securities in issue | 21,714 | 20,423 | 4,474 |
| Current income tax liability | 912 | 12,433 | – |
| Deferred income tax liability | 29,244 | 23,187 | 27,814 |
| Provisions for liabilities and charges | 9,461 | 11,898 | 12,380 |
| Other financial liabilities | 39,435 | 41,346 | 24,850 |
| Other liabilities | 40,627 | 34,975 | 31,305 |
| Subordinated debt | 283,648 | 188,015 | 168,274 |
| **Total liabilities per statement of financial position** | **5,716,546** | **4,403,990** | **3,721,786** |

## 28 Interest Income and Expense

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Interest income** | | | |
| Loans and advances to customers | 582,327 | 465,520 | 433,968 |
| Bonds carried at amortised cost | 22,950 | – | – |
| Investment securities available for sale (Note10) | 20,927 | 30,361 | 30,442 |
| Investments in leases | 15,217 | 10,265 | 7,356 |
| Due from other banks | 7,638 | 6,211 | 3,030 |
| **Total interest income** | **649,059** | **512,357** | **474,796** |
| **Interest expense** | | | |
| Customer accounts | 137,489 | 110,041 | 139,913 |
| Due to credit institutions | 70,834 | 43,384 | 38,645 |
| Subordinated debt | 26,363 | 19,069 | 13,182 |
| Debt securities in issue | 2,105 | 928 | 237 |
| Other | 94 | 287 | 169 |
| **Total interest expense** | **236,885** | **173,709** | **192,146** |
| **Net interest income** | **412,174** | **338,648** | **282,650** |

During the year ended 31 December 2015 the interest accrued on impaired loans was GEL 25,756 thousand (2014: 18,134 thousand, 2013: 38,871 thousand).

## 29 Fee and Commission Income and Expense

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Fee and commission income** | | | |
| *Fee and commission income in respect of financial instruments not at fair value through profit or loss:* | | | |
| – Card operations | 49,424 | 35,247 | 33,012 |
| – Settlement transactions | 31,218 | 23,892 | 18,543 |
| – Cash transactions | 10,930 | 6,507 | 5,040 |
| – Guarantees issued | 8,949 | 9,140 | 6,271 |
| – Issuance of letters of credit | 5,859 | 6,889 | 6,769 |
| – Foreign exchange operations | 1,410 | 1,169 | 1,550 |
| – Other | 6,047 | 5,359 | 3,176 |
| **Total fee and commission income** | **113,837** | **88,203** | **74,361** |
| **Fee and commission expense** | | | |
| *Fee and commission expense in respect of financial instruments not at fair value through profit or loss:* | | | |
| – Card operations | 27,169 | 16,053 | 13,143 |
| – Settlement transactions | 3,904 | 2,594 | 2,157 |
| – Guarantees received | 3,165 | 4,161 | 4,048 |
| – Cash transactions | 2,707 | 2,592 | 1,544 |
| – Foreign exchange operations | 5 | 62 | 70 |
| – Other | 4,596 | 4,061 | 3,339 |
| **Total fee and commission expense** | **41,546** | **29,523** | **24,301** |
| **Net fee and commission income** | **72,291** | **58,680** | **50,060** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 30 Other Operating Income

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Revenues from operational leasing | 8,539 | 6,997 | 2,980 |
| Gain from sale of investment properties | 4,896 | 5,795 | 5,835 |
| Gain on sale of financial asset | 4,692 | – | – |
| Gain from sale of inventories of repossessed collateral | 1,836 | 1,644 | 1,519 |
| Revenues from sale of cash-in terminals | 777 | 852 | 760 |
| Administrative fee income from international financial institutions | 708 | 982 | 1,268 |
| Revenues from non-credit related fines | 286 | 236 | 339 |
| Gain on disposal of premises and equipment | 118 | 126 | 37 |
| Other | 4,031 | 2,968 | 3,398 |
| **Total other operating income** | **25,883** | **19,600** | **16,136** |

Revenues from operational leasing is wholly attributable to investment properties. Carrying value of inventories of repossessed collateral disposed of during year ended 31 December 2015 was GEL 9,777 thousand (2014: GEL 13,721 thousand; 2013: GEL 19,558 thousand).

## 31 Administrative and Other Operating Expenses

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Rent | 16,468 | 11,943 | 10,809 |
| Advertising and marketing services | 11,451 | 14,121 | 13,211 |
| Professional services | 8,418 | 11,969 | 6,247 |
| Intangible asset enhancement | 6,062 | 4,371 | 3,767 |
| Impairment of intangible assets | 4,982 | – | – |
| Taxes other than on income | 4,598 | 3,900 | 3,043 |
| Utility services | 4,501 | 3,681 | 3,369 |
| Stationery and other office expenses | 3,471 | 2,632 | 2,360 |
| Communications and supply | 3,433 | 3,455 | 3,103 |
| Insurance | 2,301 | 1,899 | 1,496 |
| Premises and equipment maintenance | 2,959 | 1,893 | 2,484 |
| Security services | 1,622 | 1,578 | 1,597 |
| Business trip expenses | 1,589 | 1,610 | 1,230 |
| Transportation and vehicle maintenance | 1,328 | 1,216 | 1,215 |
| Personnel training and recruitment | 1,230 | 919 | 902 |
| Charity | 928 | 898 | 905 |
| Loss on disposal of inventories | 86 | 208 | 221 |
| Loss on disposal of premises and equipment | 34 | 18 | 54 |
| Loss on disposal of investment properties | 3 | – | 76 |
| Write-down of current assets to fair value less costs to sell | (178) | 190 | 6,178 |
| Other | 7,678 | 7,047 | 6,425 |
| **Total administrative and other operating expenses** | **82,964** | **73,548** | **68,692** |

## 32 Income Taxes

Income tax expense comprises the following:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current tax charge | 29,697 | 29,365 | 8,247 |
| Deferred tax (credit)/charge | (521) | (4,897) | 7,416 |
| **Income tax expense for the year** | **29,176** | **24,468** | **15,663** |

The income tax rate applicable to the majority of the Group's income is 15% (2014: 15%; 2013: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2014: 15% – 20%; 2013: 15% – 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Profit before tax** | **247,873** | **182,919** | **139,933** |
| Theoretical tax charge at statutory rate (2015: 15%; 2014: 15%; 2013: 15%) | 37,181 | 27,438 | 20,990 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | | |
| – Income which is exempt from taxation | (7,281) | (4,678) | (4,865) |
| – Non-deductible expenses and other differences | (724) | 1,708 | 1,758 |
| – Recognition of previously unrecognised deferred tax assets | – | – | (2,220) |
| **Income tax expense for the year** | **29,176** | **24,468** | **15,663** |

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 1,405 thousand (2014: GEL 6.141 thousand; 2013: GEL 3,653 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

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% (2014: 15%; 2013: 15%) for Georgia and 20% for Azerbaijan (2014: 20%; 2015: 20%).

| In thousands of GEL | 31 December 2014 | (Charged)/ credited to profit or loss | (Charged)/ credited directly to other comprehensive income | 31 December 2015 |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards** | | | | |
| Premises and equipment | (20,040) | (1,393) | (4,369) | (25,802) |
| Loan impairment provision | (4,718) | (3,858) | (591) | (9,167) |
| Fair valuation of investment securities available for sale | (1,224) | 108 | (479) | (1,595) |
| Other financial assets | 4,483 | 1,469 | – | 5,952 |
| Other assets | 4,164 | 2,211 | 32 | 6,407 |
| Investment in leases | 29 | (585) | – | (556) |
| Investment property | (6,436) | 2,189 | – | (4,247) |
| Due to credit institutions | (292) | (183) | – | (475) |
| Subordinated debt | (259) | (68) | – | (327) |
| Other financial liabilities | 1,817 | (1,757) | – | 60 |
| Other liabilities | (380) | 1,697 | (6) | 1,311 |
| Share-based payment | 52 | 689 | – | 741 |
| **Net deferred tax asset/(liability)** | **(22,804)** | **519** | **(5,413)** | **(27,698)** |
| Recognised deferred tax asset | 383 | 1,163 | – | 1,546 |
| Recognised deferred tax liability | (23,187) | (644) | (5,413) | (29,244) |
| **Net deferred tax asset/(liability)** | **(22,804)** | **519** | **(5,413)** | **(27,698)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 32 Income Taxes continued

| In thousands of GEL | 31 December 2013 | (Charged)/ credited to profit or loss | Charged directly to other comprehensive income | 31 December 2014 |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards** | | | | |
| Premises and equipment | (18,306) | (2,039) | 305 | (20,040) |
| Loan impairment provision | (5,666) | 948 | – | (4,718) |
| Fair valuation of investment securities available for sale | (557) | (475) | (192) | (1,224) |
| Other financial assets | 191 | 4,292 | – | 4,483 |
| Other assets | 1,741 | 2,423 | – | 4,164 |
| Investment in leases | (13) | 42 | – | 29 |
| Investment property | (7,012) | 576 | – | (6,436) |
| Due to credit institutions | 464 | (756) | – | (292) |
| Subordinated debt | (289) | 30 | – | (259) |
| Other Financial liabilities | 1,027 | 790 | – | 1,817 |
| Other Liabilities | 301 | (681) | – | (380) |
| Share-based payment | 305 | (253) | – | 52 |
| **Net deferred tax asset/(liability)** | **(27,814)** | **4,897** | **113** | **(22,804)** |

| In thousands of GEL | 1 January 2013 | (Charged)/ credited to profit or loss | Charged directly to other comprehensive income | 31 December 2013 |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards** | | | | |
| Premises and equipment | (16,961) | (1,345) | – | (18,306) |
| Loan impairment provision | (834) | (4,832) | – | (5,666) |
| Fair valuation of investment securities available for sale | (473) | 171 | (255) | (557) |
| Tax loss carry forwards | 678 | (678) | – | – |
| Other financial assets | 1,320 | (1,129) | – | 191 |
| Other assets | 865 | 876 | – | 1,741 |
| Investment in leases | (197) | 184 | – | (13) |
| Investment property | (2,576) | (4,436) | – | (7,012) |
| Due to credit institutions | (433) | 897 | – | 464 |
| Subordinated debt | (219) | (70) | – | (289) |
| Other Financial liabilities | – | 1,027 | – | 1,027 |
| Other Liabilities | (1,313) | 1,614 | – | 301 |
| Share-based payment | – | 305 | – | 305 |
| **Net deferred tax asset/(liability)** | **(20,143)** | **(7,416)** | **(255)** | **(27,814)** |

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.

## 33 Financial and Other Risk Management

TBC Bank Group operates a prudent approach to risk management through its strong and independent risk function managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organisation 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 Bank's competitive advantage and strategic enabler.

TBC Bank Group governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. Supervisory Board 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's daily activities.

Both the Supervisory Board and the Management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Group'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.

TBC Bank Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which is approved by the Supervisory Board and establishes desired risk profile and 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 day-to-day operations of the Group, 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 clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

Daily management of individual risks is based on the three lines of defence principle. While business lines are primary owners of risks, risk teams assume the function of second line defence. This is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. Committees are established at operational levels in charge of making transaction-level decisions comprising component of clear and sophisticated delegations of authority framework based on "four-eye-principle". All new products/projects pass through risk teams to assure the risks are analysed comprehensively. Such control arrangements guarantee that Bank makes informed risk-taking decisions that are adequately priced and that risks exceeding established targets of the Group are not taken. Credit, liquidity, market, operational and other non-financial risk management is performed by following teams within Risk Organisation:

- Enterprise Risk Management (ERM).
- Credit Risk Management.
- Underwriting (Credit sanctioning).
- Restructuring and Collections.
- Financial Risk Management.
- Operational Risk Management.

Strong and independent structure enables 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 both on local and international markets.

In addition to the above-mentioned risk teams, Compliance Department (reporting directly to CEO), is specifically in charge of AML and compliance risk management. Internal Audit Department as a third line of defence is in charge of provision of independent and objective assurance and recommendations to Group that facilitates further improvement of operations and risk management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 33 Financial and Other Risk Management continued

For the management of each significant risk, the Bank puts in place 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 risk governance components described above, compensation system comprises one of the most significant tools for introducing incentives for staff that are aligned with the Bank's long-term interests to generate sustainable risk-adjusted returns. Risk Key Performance Indicators ("KPIs") are incorporated into both business line and risk staff remunerations. 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 is equal to their carrying values. For maximum exposure on off-balance sheet commitments refer to Note 35.

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 is 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 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. During 2015 Risk Appetite framework has been further enhanced and respective metrics have been embedded in the Bank's strategic planning process, thus taking informed decision when defining the Bank's growth strategy.

<u>Credit Approval</u>: TBC Bank 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 clear segregation of duties among parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting 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 loan approval. Business borrowers lending guidelines have been tailored for individual economic sectors, outlining key lending criteria and target ratios within each industry.

## 33 Financial and Other Risk Management continued

Loan Approval Committees are responsible to review credit applications and approve 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 proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers requires the review and approval of Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties that result in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Credit Risk Monitoring: The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk the Bank faces across various business segments. In order to minimise credit risk, the Group continuously monitors its credit portfolio, both at the level of individual transaction and at overall credit portfolio level. The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and to monitor the risks and adherence to predefined limits by means of reliable and timely data. Regular reports regarding quality trends of the portfolio are generated and presented to the Management Board Risk Committee on a monthly basis and to Risk Ethics and Compliance Committee on a quarterly basis. Report includes but is not limited to: total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, TBC Bank's related and connected party exposures and compliance with risk appetite limits.

In response to local currency devaluation, the Group undertook scrutinised monitoring of the loan book both on a transaction and portfolio level. As a result of monitoring process individual borrowers affected by currency devaluation were identified and specific action plans were outlined; list of vulnerable products and industries were identified with underwriting criteria being revised accordingly. This approach enabled the Group to keep credit risks within acceptable limits during not stable macro environment.

Credit Risk Mitigation: Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, TBC Bank 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. The centralised collateral management unit has been established in order to have central view and strategy on collateral management and ensure that all processes are efficiently followed.

Credit Risk Restructuring and Collection: The Group has in place a comprehensive portfolio supervision system to identify weakened or problem credit exposures in a timely manner and take early remedial actions. Dedicated restructuring units are in place to manage weakened borrowers across all business segments. The primary goal of 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.

For smaller retail and micro loans a special collection system is in place to effectively manage overdue loans, the system based on predefined strategies generates list of borrowers which should be contacted via phone call, generates letter reminders to overdue borrowers, records borrowers' promises to pay and other updates for further actions.

For management of loans with higher risk profile dedicated recovery units are in place. Corporate and SME borrowers are transferred to recovery unit in case there is a strong probability that a material portion of the principal amount will not be paid and 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) when 90 days overdue, although may be transferred earlier if it is evident that the borrower is unable to repay the loan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 33 Financial and Other Risk Management continued

**Geographical risk concentrations**. Assets, liabilities, credit-related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from 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 at 31 December 2015 is set out below:

| In thousands of GEL | Georgia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 509,000 | 199,383 | 11,964 | **720,347** |
| Due from other banks | 2,976 | 8,066 | – | **11,042** |
| Mandatory cash balances with National Bank of Georgia | 471,490 | – | – | **471,490** |
| Loans and advances to customers | 4,192,155 | 123,643 | 129,088 | **4,444,886** |
| Investment securities available for sale | 297,975 | 9,335 | – | **307,310** |
| Bonds carried at amortised cost | 372,092 | – | – | **372,092** |
| Investments in leases | 75,760 | – | – | **75,760** |
| Other financial assets | 64,302 | 15 | – | **64,317** |
| **Total financial assets** | **5,985,750** | **340,442** | **141,052** | **6,467,244** |
| **Non-financial assets** | **465,094** | **39** | **2,618** | **467,751** |
| **Total assets** | **6,450,844** | **340,481** | **143,670** | **6,934,995** |
| **Liabilities** | | | | |
| Due to credit institutions | 408,475 | 637,367 | 67,732 | **1,113,574** |
| Customer accounts | 3,378,566 | 462,400 | 336,965 | **4,177,931** |
| Debt securities in issue | 4,798 | – | 16,916 | **21,714** |
| Other financial liabilities | 36,772 | 2,591 | 72 | **39,435** |
| Subordinated debt | – | 283,648 | – | **283,648** |
| **Total financial liabilities** | **3,828,611** | **1,386,006** | **421,685** | **5,636,302** |
| **Non-financial liabilities** | **78,624** | **834** | **786** | **80,244** |
| **Total liabilities** | **3,907,235** | **1,386,840** | **422,471** | **5,716,546** |
| **Net balance sheet position** | **2,543,609** | **(1,046,359)** | **(278,801)** | **1,218,449** |
| **Performance guarantees** | **234,695** | **1,786** | **6,702** | **243,183** |
| **Credit-related commitments** | **401,590** | **13,199** | **1,003** | **415,792** |

## 33 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities at 31 December 2014 is set out below:

| In thousands of GEL | Georgia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 348,237 | 91,896 | 91,985 | **532,118** |
| Due from other banks | 615 | 3,910 | 29,179 | **33,704** |
| Mandatory cash balances with National Bank of Georgia | 336,075 | – | – | **336,075** |
| Loans and advances to customers | 3,397,855 | 71,971 | 86,670 | **3,556,496** |
| Investment securities available for sale | 460,370 | 6,140 | – | **466,510** |
| Investments in leases | 50,907 | – | – | **50,907** |
| Other financial assets | 43,802 | 55 | – | **43,857** |
| **Total financial assets** | **4,637,861** | **173,972** | **207,834** | **5,019,667** |
| **Non-financial assets** | **401,744** | **22** | **2,033** | **403,799** |
| **Total assets** | **5,039,605** | **173,994** | **209,867** | **5,423,466** |
| **Liabilities** | | | | |
| Due to credit institutions | 279,445 | 411,605 | 58,235 | **749,285** |
| Customer accounts | 2,931,114 | 312,470 | 78,844 | **3,322,428** |
| Debt securities in issue | 3,718 | – | 16,705 | **20,423** |
| Other financial liabilities | 37,677 | 3,454 | 215 | **41,346** |
| Subordinated debt | 6,204 | 181,811 | – | **188,015** |
| **Total financial liabilities** | **3,258,158** | **909,340** | **153,999** | **4,321,497** |
| **Non-financial liabilities** | **81,365** | **178** | **950** | **82,493** |
| **Total liabilities** | **3,339,523** | **909,518** | **154,949** | **4,403,990** |
| **Net balance sheet position** | **1,700,082** | **(735,524)** | **54,918** | **1,019,476** |
| **Performance guarantees** | **183,528** | **–** | **–** | **183,528** |
| **Credit-related commitments** | **513,746** | **–** | **–** | **513,746** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 33 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities at 31 December 2013 is set out below:

| In thousands of GEL | Georgia | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 242,264 | 74,279 | 73,922 | **390,465** |
| Due from other banks | – | 1,630 | 78 | **1,708** |
| Mandatory cash balances with National Bank of Georgia | 295,332 | – | – | **295,332** |
| Loans and advances to customers | 2,639,915 | 91,492 | 70,305 | **2,801,712** |
| Investment securities available for sale | 495,793 | 4,858 | – | **500,651** |
| Investments in leases | 35,613 | – | – | **35,613** |
| Other financial assets | 44,990 | 59 | – | **45,049** |
| **Total financial assets** | **3,753,907** | **172,318** | **144,305** | **4,070,530** |
| **Non-financial assets** | **379,248** | **28** | **1,269** | **380,545** |
| **Total assets** | **4,133,155** | **172,346** | **145,574** | **4,451,075** |
| **Liabilities** | | | | |
| Due to credit institutions | 115,519 | 403,179 | 47,108 | **565,806** |
| Customer accounts | 2,513,794 | 347,410 | 25,679 | **2,886,883** |
| Debt securities in issue | – | – | 4,474 | **4,474** |
| Other financial liabilities | 19,638 | 5,164 | 48 | **24,850** |
| Subordinated debt | – | 168,274 | – | **168,274** |
| **Total financial liabilities** | **2,648,951** | **924,027** | **77,309** | **3,650,287** |
| **Non-financial liabilities** | **70,160** | **92** | **1,247** | **71,499** |
| **Total liabilities** | **2,719,111** | **924,119** | **78,556** | **3,721,786** |
| **Net balance sheet position** | **1,414,044** | **(751,773)** | **67,018** | **729,289** |
| **Performance guarantees** | **156,551** | **–** | **–** | **156,551** |
| **Credit-related commitments** | **422,239** | **–** | **–** | **422,239** |

***Market risk***. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

***Currency risk.*** Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 December 2015, the Bank maintained an aggregate open currency position of 1.6% of regulatory capital (2014: 3.1%; 2013: 0.79%). 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.

The Bank has in place Market Risk Management Policy, market risk management procedure and relevant methodologies which are updated annually in order to further increase effectiveness of currency risk management.

## 33 Financial and Other Risk Management continued

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:

| | At 31 December 2015 | | | |
|---|---|---|---|---|
| In thousands of GEL | Monetary financial assets | Monetary financial liabilities | Derivatives | Net balance sheet position |
| Georgian Lari | 2,442,850 | 1,646,864 | 3,430 | 799,416 |
| US Dollars | 3,507,494 | 3,428,146 | (71,933) | 7,415 |
| Euros | 466,450 | 499,702 | 32,715 | (537) |
| Other | 50,436 | 61,531 | 36,285 | 25,190 |
| **Total** | **6,467,230** | **5,636,243** | **497** | **831,484** |

| | At 31 December 2014 | | | | At 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| In thousands of GEL | Monetary financial assets | Monetary financial liabilities | Derivatives | Net balance sheet position | Monetary financial assets | Monetary financial liabilities | Derivatives | Net balance sheet position |
| Georgian Lari | 1,979,583 | 1,336,626 | 55,335 | **698,292** | 1,438,492 | 994,150 | (31,569) | **412,773** |
| US Dollars | 2,704,810 | 2,573,475 | (193,200) | **(61,865)** | 2,374,574 | 2,333,144 | (60,192) | **(18,762)** |
| Euros | 262,113 | 376,934 | 117,668 | **2,847** | 217,267 | 294,734 | 76,450 | **(1,017)** |
| Other | 72,543 | 34,414 | 18,313 | **56,442** | 38,917 | 28,259 | 16,532 | **27,190** |
| **Total** | **5,019,049** | **4,321,449** | **(1,884)** | **695,716** | **4,069,250** | **3,650,287** | **1,221** | **420,184** |

To assess currency risk the Bank performs value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the income of the Group of possible worst movement of currency rates against Georgian Lari, with all other variables held constant. To identify maximum expected losses associated with currency fluctuations, 99% confidence level is defined based on monthly changes in exchange rates over the 3 years look-back period. During the years ended 31 December 2015, 2014 and 2013, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

| In thousands of GEL | As at 31 December 2015 | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|---|
| Maximum loss (VAR, 99% confidence level) | (449) | (2,572) | (589) |
| Maximum loss (VAR,95% confidence level) | (285) | (1,886) | (413) |

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

The deposits and the largest part of loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. 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. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at amounts monitored by the management, 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 NII in case of upward movement and do not affect NII in case of downward shift of interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 33 Financial and Other Risk Management continued

| In thousands of GEL | Less than 1 year | More than 1 year | Total |
|---|---|---|---|
| **31 December 2015** | | | |
| Total financial assets | 3,634,967 | 2,847,165 | **6,482,132** |
| Total financial liabilities | 3,747,595 | 1,903,627 | **5,651,222** |
| **Net interest sensitivity gap at 31 December 2015** | **(112,628)** | **943,538** | **830,910** |
| **31 December 2014** | | | |
| Total financial assets | 2,566,552 | 2,480,230 | **5,046,782** |
| Total financial liabilities | 2,763,543 | 1,584,484 | **4,348,027** |
| **Net interest sensitivity gap at 31 December 2014** | **(196,991)** | **895,746** | **698,755** |
| **31 December 2013** | | | |
| Total financial assets | 2,108,957 | 1,994,728 | **4,103,685** |
| Total financial liabilities | 2,364,190 | 1,317,960 | **3,682,150** |
| **Net interest sensitivity gap at 31 December 2013** | **(255,233)** | **676,768** | **421,535** |

At 31 December 2015, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 6,748 thousand (2014: GEL 4,932 thousand; 2013 GEL 4,400 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 927 thousand (2014: GEL 5,482 thousand, 2013: GEL 5,093 thousand) higher, 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 777 thousand (2014: GEL 1,329 thousand 2013: GEL 1,284 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 911 thousand (2014: GEL 5,278 thousand, 2013: GEL 4,786 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

For the management of interest rate risk on a standalone basis, the Bank has introduced an advanced model developed with the assistance of Ernst & Young LLC. The interest rate risk analysis is performed by Financial Risk Management Department monthly.

The Bank calculates 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.

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 Supervisory Board Risk, Ethics and Compliance Committee.

***Liquidity Risk.*** 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. Liquidity 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.

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

## 33 Financial and Other Risk Management continued

***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 Liquidity Coverage ratio and 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.

***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 liquidity coverage ratio limits are put in place. TBC Bank also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC Bank calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis.

***The Net Stable Funding ratio*** is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC 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 the NBG accounting rules.

Calculation of the NSFR as at 31 December 2015, 2014 and 2013 is summarised in the table below.

| | | As at 31 December | | |
|---|---|---|---|---|
| | | 2015 | 2014 | 2013 |
| **Net Stable Funding Ratio** | | **116.3%** | **114.6%** | **118.6%** |
| In thousands of GEL | Factor | | Amount | |
| **Available stable funding** | | **5,219,116** | **4,135,922** | **3,410,696** |
| **Capital: Tier 1 & Tier 2 Capital Instruments** | | **1,449,145** | 1,188,187 | 898,278 |
| Tier 1 | 100% | 1,157,022 | 967,495 | 675,723 |
| Tier 2 | 100% | 292,123 | 220,692 | 222,555 |
| **Long-term Funding (year >= 1)** | | **600,268** | **489,933** | **387,814** |
| Long-term borrowings (>=1 year) | 100% | 490,833 | 388,378 | 319,244 |
| Subordinated debt not included in Tier 2 | 100% | 75,651 | 62,043 | 34,314 |
| Other funding (>=1 year) | 100% | 33,784 | 39,512 | 34,256 |
| **Other Funding** | | **3,169,703** | **2,457,802** | **2,124,604** |
| Total corporate deposits | 50% | 500,671 | 416,277 | 409,769 |
| Total SME deposits | 80% | 565,369 | 410,160 | 365,335 |
| Total retail deposits | 80% | 1,975,902 | 1,581,739 | 1,288,541 |
| Short term borrowings with remaining maturity (<1year) | 50% | 110,588 | 47,674 | 59,635 |
| Subordinated debt (<1 year) | 50% | 17,173 | 1,952 | 1,324 |
| **Required amount of stable funding** | | **4,489,467** | **3,610,370** | **2,874,587** |
| **Long-term Assets with remaining maturity >=1 year** | | **3,593,696** | **2,892,927** | **2,293,969** |
| Certificate of deposits & Tbill's (>1year) | 5% | 8,624 | – | – |
| Reserves in NGB (Stable part) | 100% | 411,585 | 332,363 | 273,267 |
| Loans (>=1 year) | 100% | 2,819,307 | 2,268,629 | 1,775,280 |
| Fixed and intangible assets(>=1 year) | 100% | 292,111 | 246,448 | 223,159 |
| Other assets (>=1 year) | 100% | 27,308 | 22,506 | 22,263 |
| Financial lease receivables (>1 year) | 100% | 34,761 | 22,981 | – |
| **Short term assets with remaining maturity <1 year** | | **863,175** | **682,580** | **551,225** |
| Loans (<= 1 year) | 50% | 842,675 | 668,617 | 551,225 |
| Financial lease receivables (<=1 year) | 50% | 20,500 | 13,963 | – |
| **Undrawn amount of committed credit and liquidity facilities** | | **32,596** | **34,863** | **29,393** |
| Unused credit lines and undisbursed amounts from loans | 5% | 12,358 | 14,214 | 9,890 |
| Guarantees | 5% | 20,238 | 20,649 | 19,503 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 33 Financial and Other Risk Management continued

Management believes that 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 its strategy and sets the loan to deposit ratio limits.

Loan to deposit ratio was at 111.0%, 111.6% and 102.5%, at the 31 December 2015, 2014 and 2013 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 Bank follows Basel III guidelines on high-quality liquidity asset eligibility 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 forms part of the TBC's overall prudential liquidity policy and is designed to ensure that TBC 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 plan is updated once a year. Last time it was updated in February 2015.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirements of the NBG. The limit is defined 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. As at 31 December the ratios were well above the prudential limit set by the NBG as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Average Liquidity Ratio | 34.4% | 31.1% | 34.0% |

According to daily cash flow forecasts, and the surplus in liquidity standing, 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 summarises the maturity analysis of the Group's financial liabilities as at 31 December 2015 based on remaining undiscounted contractual obligations. Repayments which are subject to notice 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 at 31 December 2015 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 | 518,915 | 148,380 | 520,673 | 24,181 | **1,212,149** |
| Customer accounts – individuals | 1,346,154 | 889,799 | 348,627 | 23,859 | **2,608,439** |
| Customer accounts – other | 1,419,830 | 119,695 | 98,836 | 23,739 | **1,662,100** |
| Other financial liabilities | 36,099 | 1,196 | 2,140 | – | **39,435** |
| Subordinated debt | 2,284 | 54,214 | 215,062 | 132,636 | **404,196** |
| Debt securities in issue | 480 | 17,996 | 5,061 | – | **23,537** |
| Gross settled forwards | 94,368 | 1,967 | – | – | **96,335** |
| Performance guarantees | 16,023 | 88,666 | 137,944 | 550 | **243,183** |
| Financial guarantees | 75,707 | 65,959 | 26,836 | 131 | **168,633** |
| Other credit-related commitments | 247,159 | – | – | – | **247,159** |
| **Total potential future payments for financial obligations** | **3,757,019** | **1,387,872** | **1,355,179** | **205,096** | **6,705,166** |

## 33 Financial and Other Risk Management continued

The maturity analysis of financial liabilities at 31 December 2014 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 | 287,557 | 102,151 | 377,385 | 44,602 | 811,695 |
| Customer accounts – individuals | 1,027,688 | 737,972 | 250,916 | 24,333 | 2,040,909 |
| Customer accounts – other | 1,115,065 | 98,241 | 113,422 | 35,865 | 1,362,593 |
| Other financial liabilities | 39,934 | 1,300 | 112 | – | 41,346 |
| Subordinated debt | 1,176 | 19,430 | 178,206 | 70,795 | 269,607 |
| Debt securities in issue | 78 | 236 | 22,008 | – | 22,322 |
| Gross settled forwards | 190,644 | 60,213 | – | – | 250,857 |
| Performance guarantees | 27,214 | 53,553 | 114,531 | 517 | 195,815 |
| Financial guarantees | 119,510 | 91,717 | 28,024 | – | 239,251 |
| Other credit-related commitments | 284,284 | – | – | – | 284,284 |
| **Total potential future payments for financial obligations** | **3,093,150** | **1,164,813** | **1,084,604** | **176,112** | **5,518,679** |

The maturity analysis of financial liabilities at 31 December 2013 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 | 158,525 | 103,522 | 313,213 | 42,715 | 617,975 |
| Customer accounts – individuals | 917,166 | 595,740 | 129,487 | 13,071 | 1,655,464 |
| Customer accounts – other | 988,285 | 171,952 | 37,431 | 86,251 | 1,283,919 |
| Other financial liabilities | 23,717 | 1,133 | – | – | 24,850 |
| Subordinated debt | 906 | 15,418 | 160,948 | 76,045 | 253,317 |
| Gross settled forwards | 123,799 | 298 | – | – | 124,097 |
| Performance guarantees | 33,582 | 73,558 | 54,986 | 1,741 | 163,867 |
| Financial guarantees | 115,453 | 97,122 | 21,702 | – | 234,277 |
| Other credit-related commitments | 197,801 | – | – | – | 197,801 |
| **Total potential future payments for financial obligations** | **2,559,234** | **1,058,743** | **717,767** | **219,823** | **4,555,567** |

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than 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 customer accounts are classified based on remaining contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a 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 demand of a depositor. Based on 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 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 liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 33 Financial and Other Risk Management continued

The expected gap may be summarised as follows at 31 December 2015:

| 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 | 720,347 | – | – | – | **720,347** |
| Due from other banks | 1,290 | 1,059 | – | 8,693 | **11,042** |
| Mandatory cash balances with National Bank of Georgia | 471,490 | – | – | – | **471,490** |
| Loans and advances to customers | 697,228 | 950,170 | 1,907,830 | 889,658 | **4,444,886** |
| Investment securities available for sale | 307,310 | – | – | – | **307,310** |
| Bonds carried at amortised cost | 86,357 | 113,248 | 145,720 | 26,767 | **372,092** |
| Finance lease receivables | 16,555 | 24,444 | 34,761 | – | **75,760** |
| Other financial assets | 41,544 | 5,704 | 17,069 | – | **64,317** |
| **Total financial assets** | **2,342,121** | **1,094,625** | **2,105,380** | **925,118** | **6,467,244** |
| **Liabilities** | | | | | |
| Due to Credit institutions | 513,415 | 114,093 | 462,636 | 23,430 | **1,113,574** |
| Customer accounts | 346,674 | 27,885 | – | 3,803,372 | **4,177,931** |
| Debt securities in issue | 32 | 16,916 | 4,766 | – | **21,714** |
| Other financial liabilities | 36,099 | 1,196 | 2,140 | – | **39,435** |
| Subordinated debt | 1,303 | 33,042 | 145,566 | 103,737 | **283,648** |
| **Total financial liabilities** | **897,523** | **193,132** | **615,108** | **3,930,539** | **5,636,302** |
| **Credit-related commitments and performance guarantees** | | | | | |
| Performance guarantees | 1,472 | – | – | – | **1,472** |
| Financial guarantees | 5,589 | – | – | – | **5,589** |
| Other credit-related commitments | 36,982 | – | – | – | **36,982** |
| **Credit-related commitments and performance guarantees** | **44,043** | **–** | **–** | **–** | **44,043** |
| **Net liquidity gap at 31 December 2015** | **1,400,555** | **901,493** | **1,490,272** | **(3,005,421)** | **786,899** |
| **Cumulative gap at 31 December 2015** | **1,400,555** | **2,302,048** | **3,792,320** | **786,899** | |

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

## 33 Financial and Other Risk Management continued

The analysis by expected maturities may be summarised as follows at 31 December 2014:

| 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 | 532,118 | – | – | – | **532,118** |
| Due from other banks | 14 | 29,179 | – | 4,511 | **33,704** |
| Mandatory cash balances with National Bank of Georgia | 336,075 | – | – | – | **336,075** |
| Loans and advances to customers | 534,371 | 770,034 | 1,560,670 | 691,421 | **3,556,496** |
| Investment securities available for sale | 466,510 | – | – | – | **466,510** |
| Investment in finance leases | 10,300 | 17,627 | 22,980 | – | **50,907** |
| Other financial assets | 20,280 | 5,965 | 17,612 | – | **43,857** |
| **Total financial assets** | **1,899,668** | **822,805** | **1,601,262** | **695,932** | **5,019,667** |
| **Liabilities** | | | | | |
| Due to Credit institutions | 285,677 | 82,439 | 338,609 | 42,560 | **749,285** |
| Customer accounts | 279,084 | – | – | 3,043,344 | **3,322,428** |
| Debt securities in issue | – | – | 20,423 | – | **20,423** |
| Other financial liabilities | 39,934 | 1,300 | 112 | – | **41,346** |
| Subordinated debt | 1,098 | 2,805 | 123,160 | 60,952 | **188,015** |
| **Total financial liabilities** | **605,793** | **86,544** | **482,304** | **3,146,856** | **4,321,497** |
| **Credit-related commitments and performance guarantees** | | | | | |
| Performance guarantees | 4,912 | – | – | – | **4,912** |
| Financial guarantees | 3,266 | – | – | – | **3,266** |
| Other credit-related commitments | 36,644 | – | – | – | **36,644** |
| **Credit-related commitments and performance guarantees** | **44,822** | **–** | **–** | **–** | **44,822** |
| **Net liquidity gap at 31 December 2014** | **1,249,053** | **736,261** | **1,118,958** | **(2,450,924)** | **653,348** |
| **Cumulative gap at 31 December 2014** | **1,249,053** | **1,985,314** | **3,104,272** | **653,348** | |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 33 Financial and Other Risk Management continued

The analysis by expected maturities may be summarised as follows at 31 December 2013:

| 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 | 390,465 | – | – | – | **390,465** |
| Due from other banks | 93 | – | – | 1,615 | **1,708** |
| Mandatory cash balances with National Bank of Georgia | 295,332 | – | – | – | **295,332** |
| Loans and advances to customers | 445,069 | 623,376 | 1,214,084 | 519,183 | **2,801,712** |
| Investment securities available for sale | 500,651 | – | – | – | **500,651** |
| Finance lease receivables | 7,148 | 11,593 | 16,872 | – | **35,613** |
| Other financial assets | 22,103 | 5,024 | 17,922 | – | **45,049** |
| **Total financial assets** | **1,660,861** | **639,993** | **1,248,878** | **520,798** | **4,070,530** |
| **Liabilities** | | | | | |
| Due to Credit institutions | 156,545 | 90,018 | 278,644 | 40,599 | **565,806** |
| Customer accounts | 261,546 | – | – | 2,625,337 | **2,886,883** |
| Debt securities in issue | – | 4,474 | – | – | **4,474** |
| Other financial liabilities | 23,717 | 1,133 | – | – | **24,850** |
| Subordinated debt | 833 | 1,814 | 103,605 | 62,022 | **168,274** |
| **Total financial liabilities** | **442,641** | **97,439** | **382,249** | **2,727,958** | **3,650,287** |
| **Credit-related commitments and performance guarantees** | | | | | |
| Performance guarantees | 4,153 | – | – | – | **4,153** |
| Financial guarantees | 4,927 | – | – | – | **4,927** |
| Other credit-related commitments | 34,962 | – | – | – | **34,962** |
| **Credit-related commitments and performance guarantees** | **44,042** | **–** | **–** | **–** | **44,042** |
| **Net liquidity gap at 31 December 2013** | **1,174,178** | **542,554** | **866,629** | **(2,207,160)** | **376,201** |
| **Cumulative gap at 31 December 2013** | **1,174,178** | **1,716,732** | **2,583,361** | **376,201** | |

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: (0-3 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 estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

**Operating environment.** Most of the Group's business in concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. 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 changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favourable investment environment. For example, in the report published by the IFC and the World Bank "Doing Business 2015: Understanding Regulations for Small and Medium-Size Enterprises", Georgia was ranked as the fifteenth (out of 189) easiest country in the world in which to do business, ahead of all its neighbouring countries and many EU Member States. Moreover, according to the same survey, Georgia was ranked as the number one in the world in terms of registering property. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

## 33 Financial and Other Risk Management continued

By the end of 2015 Georgian Lari depreciated against the US Dollar by 29% year-over-year. Over the same period GEL lost 15% of its value against EUR. Despite the sharp depreciation against USD, nominal effective exchange rate of GEL depreciated by 4% year-over-year in 2015, showing that GEL behaved in line with the developments in major trading partners of Georgia and helped to maintain external competitiveness of the country. As broadly expected, the first wave of the currency crisis was passed in the first nine months of 2015. In the fourth quarter of 2015, the pressure on the currency rate has been relatively eased, with the USD/GEL exchange rate down by 1% quarter-over-quarter and EUR/GEL up by 2% quarter-over-quarter.

Responding to increased inflation expectations, NBG tightened monetary policy, over 2015 monetary policy rate increased gradually from 4% in the beginning of 2015 to 8%. As a result, inflation ended up at 4.9% in December 2015, right about the NBG's target of 5%.

Budgetary spending was also maintained within the sustainable levels, initial estimate of fiscal deficit amounted to 3% of GDP, deficit spending has been more equally distributed across the year, unlike the practice in previous years, which helped to avoid additional pressure on GEL by the end of the year.

In 11 months of 2015 the Georgian economy grew moderately by 3%, per initial estimates. Decreased exports and remittances have put a pressure on the current account, but this has been largely offset by the reduced imports as a consequence of the National Bank's prudent strategy to maintain the free float of the Georgian currency. Imports were also positively affected by the decrease in oil prices.

Furthermore, country observed a continued positive trend in tourism. Number of international arrivals increased by 7% year-over-year in 2015 and represented significant positive factor for the improvement of Current Account deficit.

## 34 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the NBG (ii) to safeguard the Group's ability to continue as a going concern and (iii) to comply with Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's CFO and Deputy CFO.

Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2013, 2014 and 2015.

### NBG Capital adequacy ratio

Under the current capital requirements set by NBG throughout 2015 banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the set 11.4% minimum level and a ratio of Tier 1 capital to risk weighted assets above the set 7.6% minimum level. No additional add-ons are in place. In the middle of 2015, previously established 3% capital add-on was removed by NBG. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Share capital | **443,987** | 433,521 | 261,045 |
| Retained earnings and other disclosed reserves | **568,604** | 402,793 | 290,585 |
| General loan loss provisions (up to 1.25% of risk – weighted assets) | **87,037** | 64,627 | 51,038 |
| Less intangible assets | **(41,080)** | (26,123) | (18,197) |
| Less Investments into subsidiary companies and capital of other banks | **(50,840)** | (117,962) | (59,129) |
| Subordinated debt (included in regulatory capital) | **173,652** | 116,068 | 131,312 |
| **Total regulatory capital** | **1,181,360** | **872,924** | **656,654** |
| **Risk-weighted Exposures** | | | |
| Credit risk weighted assets (including off-balance obligations) | 5,304,184 | 4,125,740 | 3,340,518 |
| Currency Induced Credit Risk | 2,056,062 | 1,525,435 | 1,321,561 |
| minus general and special reserves | (205,131) | (155,192) | (166,377) |
| **Risk-weighted assets** | **7,155,115** | **5,495,983** | **4,495,702** |
| **Tier 1 Capital adequacy ratio** | **11.0%** | **12.2%** | **10.6%** |
| **Total Capital adequacy ratio** | **16.5%** | **15.9%** | **14.6%** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 34 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 the end of 2015, 2014, 2013 are given in the tables below:

| In thousands of GEL<br>Risk-weighted Exposures | 2015<br>Carrying Value | 2015<br>RW amount |
|---|---|---|
| Cash, cash equivalents, Interbank Deposits and Securities | 1,794,873 | 85,733 |
| Gross Loans and accrued interests | 4,671,693 | 6,445,027 |
| Repossessed Assets | 44,253 | 44,253 |
| Fixed Assets and intangible assets | 306,368 | 265,288 |
| Other assets | 177,111 | 151,073 |
| **Total** | **6,994,298** | **6,991,374** |
| **Total Off-balance** | **696,260** | **368,872** |
| minus general and special reserves | (205,131) | (205,131) |
| **Total Amount** | **7,485,427** | **7,155,115** |

| In thousands of GEL<br>Risk-weighted Exposures | 2014<br>Carrying Value | 2014<br>RW amount |
|---|---|---|
| Cash, cash equivalents, Interbank Deposits and Securities | 1,426,453 | 257,522 |
| Gross Loans and accrued interests | 3,353,985 | 4,668,750 |
| Repossessed Assets | 67,381 | 67,381 |
| Fixed Assets and intangible assets | 201,721 | 175,598 |
| Other assets | 198,146 | 112,829 |
| **Total** | **5,247,686** | **5,282,080** |
| **Total Off-balance** | **868,270** | **369,095** |
| minus general and special reserves | (155,192) | (155,192) |
| **Total Amount** | **5,960,764** | **5,495,983** |

| In thousands of GEL<br>Risk-weighted Exposures | 2013<br>Carrying Value | 2013<br>RW amount |
|---|---|---|
| Cash, cash equivalents, Interbank Deposits and Securities | 1,170,286 | 158,730 |
| Gross Loans and accrued interests | 2,713,271 | 3,829,318 |
| Repossessed Assets | 69,143 | 69,143 |
| Fixed Assets and intangible assets | 202,902 | 184,705 |
| Other assets | 143,487 | 92,255 |
| **Total** | **4,299,089** | **4,334,151** |
| **Total Off-balance** | **615,670** | **327,928** |
| minus general and special reserves | (166,377) | (166,377) |
| **Total Amount** | **4,748,382** | **4,495,702** |

## 34 Management of Capital continued

**NBG Basel II Capital adequacy ratio**

After adoption of NBG Basel II/III requirements the Bank in addition to above capital ratios calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from 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 | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Tier 1 Capital** | 953,403 | 783,360 | 526,224 |
| **Tier 2 Capital** | 245,705 | 163,505 | 177,950 |
| **Regulatory capital** | **1,199,108** | 946,865 | 704,174 |
| **Risk-weighted exposures** | | | |
| Credit-risk weighted exposures | 7,005,711 | 5,879,120 | 4,553,155 |
| Risk-weighted exposures for market Risk | 18,651 | 27,186 | 3,946 |
| Risk-weighted exposures for operational Risk | 452,089 | 390,378 | 343,892 |
| **Total Risk-weighted exposures** | **7,476,451** | 6,296,684 | 4,900,993 |
| *Minimum Tier 1 ratio* | **8.5%** | 8.5% | 8.5% |
| **Tier 1 Capital adequacy ratio** | **12.8%** | 12.4% | 10.7% |
| *Minimum total capital adequacy ratio* | **10.5%** | 10.5% | 10.5% |
| **Total Capital adequacy ratio** | **16.0%** | 15.0% | 14.4% |

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the 31 December 2015, 2014 and 2013 are given in the tables below:

| | 2015 | |
|---|---|---|
| In thousands of GEL | Carrying Value | RW amount |
| Cash, cash equivalents, Interbank exposures and securities | 1,857,283 | 570,748 |
| Gross loans and accrued interests, | 4,442,340 | 5,555,538 |
| Repossessed assets | 44,253 | 44,253 |
| Fixed assets and intangible assets | 306,368 | 334,472 |
| Other assets | 179,535 | 219,572 |
| *minus general provision, penalty and interest provision* | (36,630) | (36,630) |
| **Total** | **6,793,149** | **6,687,953** |
| **Total off-balance** | **789,224** | **317,758** |
| **Market risk** | **18,651** | **18,651** |
| **Operational risk** | **316,462** | **452,089** |
| **Total amount** | **7,917,486** | **7,476,451** |

| | 2014 | |
|---|---|---|
| In thousands of GEL | Carrying Value | RW amount |
| Cash, cash equivalents, Interbank exposures and securities | 1,524,235 | 682,162 |
| Gross loans and accrued interests, excluding loans to JSC Bank Constanta | 3,254,912 | 4,330,991 |
| Repossessed assets | 67,381 | 67,381 |
| Fixed Assets and intangible assets | 201,721 | 187,918 |
| Other assets | 199,439 | 307,609 |
| *minus general provision, penalty and interest provision* | (48,030) | (48,030) |
| **Total** | **5,199,658** | **5,528,031** |
| **Total off-balance** | **934,174** | **351,089** |
| **Market risk** | **27,186** | **27,186** |
| **Operational risk** | **273,265** | **390,378** |
| **Total amount** | **6,434,283** | **6,296,684** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 34 Management of Capital continued

| | 2013 | |
|---|---|---|
| In thousands of GEL | Carrying Value | RW amount |
| Cash, cash equivalents, Interbank Exposures and Securities | 1,253,675 | 467,647 |
| Gross loans and accrued interests, excluding loans to JSC Bank Constanta | 2,619,707 | 3,321,301 |
| Repossessed Assets | 69,143 | 69,143 |
| Fixed Assets and intangible assets | 202,902 | 203,833 |
| Other assets | 153,663 | 214,198 |
| *minus general provision, penalty and interest provision* | (41,837) | (41,837) |
| **Total** | **4,257,253** | **4,234,285** |
| **Total Off-balance** | **678,453** | **318,870** |
| **Market Risk** | **5,180** | **3,946** |
| **Operational Risk** | **240,724** | **343,892** |
| **Total Amount** | **5,181,610** | **4,900,993** |

**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, including 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 | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Tier 1 capital** | | | |
| Share capital | 427,061 | 425,234 | 259,123 |
| Retained earnings and disclosed reserves | 725,498 | 537,616 | 404,659 |
| Less: Goodwill | (2,726) | (2,726) | (2,726) |
| Non-controlling interest | 7,189 | 7,371 | 14,667 |
| **Total tier 1 capital** | **1,157,022** | **967,495** | **675,723** |
| **Tier 2 capital** | | | |
| Revaluation reserves | 58,701 | 49,255 | 50,840 |
| General reserve | 59,770 | 49,367 | 40,403 |
| Subordinated debt (included in tier 2 capital) | 173,652 | 122,070 | 131,312 |
| **Total tier 2 capital** | **292,123** | **220,692** | **222,555** |
| **Total capital** | **1,449,145** | **1,188,187** | **898,278** |
| Credit-risk weighted assets (including off-balance obligations) | 4,781,605 | 3,949,360 | 3,232,229 |
| Less: General reserve | (134,373) | (100,397) | (116,466) |
| Market risk | 32,605 | 61,864 | 19,779 |
| **Total risk-weighted assets** | **4,679,837** | **3,910,827** | **3,135,542** |
| *Minimum Tier 1 ratio* | **4.0%** | **4.0%** | **4.0%** |
| **Tier 1 Capital adequacy ratio** | **24.7%** | **24.7%** | **21.6%** |
| *Minimum total capital adequacy ratio* | **8.0%** | **8.0%** | **8.0%** |
| **Total capital adequacy ratio** | **31.0%** | **30.4%** | **28.6%** |

Following Basel I guidelines 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).

## 34 Management of Capital continued

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2015, 2014, 2013 are given in the tables below:

| In thousands of GEL<br>Risk-weighted Exposures | 2015<br>Carrying Value | 2015<br>RW amount |
|---|---|---|
| Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale | 1,882,281 | 103,406 |
| Gross loans and accrued interests | 4,639,029 | 3,757,464 |
| Repossessed assets | 85,216 | 85,216 |
| Fixed assets and intangible assets | 294,837 | 292,111 |
| Other assets | 227,775 | 227,775 |
| **Total** | **7,129,138** | **4,465,972** |
| **Total off-balance** | **849,295** | **315,633** |
| *Less: Loan loss provision minus General Reserve* | (134,373) | (134,373) |
| **Market risk** | **32,605** | **32,605** |
| **Total amount** | **7,876,665** | **4,679,837** |

| In thousands of GEL<br>Risk-weighted Exposures | 2014<br>Carrying Value | 2014<br>RW amount |
|---|---|---|
| Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale | 1,368,407 | 63,462 |
| Gross loans and accrued interests | 3,706,260 | 3,035,718 |
| Repossessed assets | 60,480 | 60,480 |
| Fixed assets and intangible assets | 249,174 | 246,448 |
| Other assets | 188,909 | 188,909 |
| **Total** | **5,573,230** | **3,595,017** |
| **Total Off-balance** | **1,028,774** | **354,343** |
| *Less: Loan loss provision minus General Reserve* | (100,397) | (100,397) |
| **Market risk** | **61,864** | **61,864** |
| **Total amount** | **6,563,471** | **3,910,827** |

| In thousands of GEL<br>Risk-weighted Exposures | 2013<br>Carrying Value | 2013<br>RW amount |
|---|---|---|
| Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale | 1,188,156 | 38,613 |
| Gross loans and accrued interests | 2,958,581 | 2,419,822 |
| Repossessed assets | 49,920 | 49,920 |
| Fixed assets and intangible assets | 225,885 | 223,159 |
| Other assets | 185,402 | 185,402 |
| **Total** | **4,607,944** | **2,916,916** |
| **Total off-balance** | **656,386** | **315,313** |
| *Less: Loan loss provision minus General Reserve* | (116,466) | (116,466) |
| **Market risk** | **19,779** | **19,779** |
| **Total amount** | **5,167,643** | **3,135,542** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 35 Contingencies and Commitments

***Legal proceedings.*** The Bank is a defendant in a number of legal claims. When determining the level of provision to be set up in respect of such claims, management uses both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate.

***Tax legislation.*** Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group 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 period of review. To respond to the risks, the Group has engaged external tax specialists who are performing 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 at 31 December 2015, 2014 and 2013 no provision for potential tax liabilities has been recorded.

***Operating lease commitments.*** Where the Group is the lessee, as at 31 December 2015, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 4,891 thousand (31 December 2014: 4,766 thousand, 31 December 2013: 4,063 thousand).

***Compliance with covenants.*** The Group is subject to certain covenants related primarily 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. As disclosed in Note 17, as at 31 December 2015, 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 at 31 December 2015 and with all covenants as at 31 December 2014 and 31 December 2013.

***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 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, which 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 extend 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 loss in an amount equal to the total unused commitments. However, the likely amount of loss is less 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 commitments.

***Performance guarantees.*** Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations.

Outstanding credit-related commitments and performance guarantees are as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Performance guarantees issued | 243,183 | 188,440 | 160,704 |
| Financial guarantees issued | 71,999 | 86,770 | 95,762 |
| Undrawn credit lines | 247,159 | 284,284 | 197,801 |
| Letters of credit | 96,634 | 145,958 | 133,603 |
| **Total credit-related commitments and performance guarantees (before provision)** | **658,975** | **705,452** | **587,870** |
| Provision for performance guarantees | (1,472) | (4,912) | (4,153) |
| Provision for credit-related commitments and financial guarantees | (5,589) | (3,266) | (4,927) |
| **Total credit-related commitments and performance guarantees** | **651,914** | **697,274** | **578,790** |

## 35 Contingencies and Commitments continued

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as at 31 December 2015 composed GEL 136,867 thousand (2014: GEL 138,296 thousand; 2013: GEL 131,342 thousand).

Fair value of credit-related commitments and financial guarantees were GEL 5,205 thousand at 31 December 2015 2014: GEL 3,266 thousand; 2013: GEL 4,927 thousand). Total credit-related commitments and performance guarantees are denominated in currencies as follows:

| In thousands of GEL | 2015 | 2014 | 2013 |
|---|---|---|---|
| Georgian Lari | 259,749 | 254,554 | 218,553 |
| US Dollars | 319,941 | 377,964 | 299,190 |
| Euro | 44,874 | 46,057 | 42,388 |
| Other | 34,411 | 26,877 | 27,739 |
| **Total** | **658,975** | **705,452** | **587,870** |

***Capital expenditure*** commitments. At 31 December 2015, the Group has contractual capital expenditure commitments amounting to GEL 6,771 thousand (2014: 511 thousand; 2013: 2,365).

## 36 Non-Controlling Interest

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2015:

| In thousands of GEL | Place of business (and country of incorporation if different) | Proportion of non-controlling interest | Proportion of non-controlling interest's voting rights held | Profit attributable to non-controlling interest | Accumulated non-controlling interest in the subsidiary | Dividends paid to non-controlling interest during the year |
|---|---|---|---|---|---|---|
| TBC Leasing JSC | Georgia | 0.43% | 0.43% | 8 | 47 | – |
| TBC Kredit LLC | Azerbaijan | 25% | 25% | (250) | 6,756 | – |
| United Financial Corporation JSC | Georgia | 1.33% | 1.33% | 60 | 386 | – |
| **Total** | | | | **(182)** | **7,189** | **–** |

The summarised financial information of these subsidiaries was as follows at 31 December 2015:

| In thousands of GEL | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Revenue | Profit | Total comprehensive income | Cash flows |
|---|---|---|---|---|---|---|---|---|
| TBC Leasing JSC | 69,642 | 36,323 | 29,607 | 65,378 | 9,511 | 1,960 | 1,960 | 8,769 |
| TBC Kredit LLC | 41,703 | 36,053 | 57,773 | 1,509 | 15,319 | (1,002) | (1,002) | 7,290 |
| United Financial Corporation JSC | 5,453 | 6,470 | 675 | 73 | 12,512 | 4,476 | 4,476 | 1,908 |
| **Total** | **116,798** | **78,846** | **88,055** | **66,960** | **37,342** | **5,434** | **5,434** | **17,967** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 36 Non-Controlling Interest continued

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2014:

| In thousands of GEL | Place of business (and country of incorporation if different) | Proportion of non-controlling interest | Proportion of non-controlling interest's voting rights held | Profit attributable to non-controlling interest | Accumulated non-controlling interest in the subsidiary | Dividends paid to non-controlling interest during the year |
|---|---|---|---|---|---|---|
| TBC Leasing JSC | Georgia | 0.52% | 0.52% | 6 | 38 | – |
| TBC Kredit LLC | Azerbaijan | 25% | 25% | 970 | 7,006 | – |
| United Financial Corporation JSC | Georgia | 1.33% | 1.33% | 24 | 327 | – |
| **Total** | | | | **1,000** | **7,371** | **–** |

The summarised financial information of these subsidiaries was as follows at 31 December 2014:

| In thousands of GEL | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Revenue | Profit | Total comprehensive income | Cash flows |
|---|---|---|---|---|---|---|---|---|
| TBC Leasing JSC | 43,541 | 29,236 | 20,625 | 44,710 | 6,130 | 1,204 | 1,204 | (2,745) |
| TBC Kredit LLC | 45,238 | 45,927 | 11,949 | 47,743 | 12,881 | 3,880 | 3,880 | 590 |
| United Financial Corporation JSC | 2,846 | 4,772 | 431 | 487 | 9,212 | 1,792 | 1,792 | 432 |
| **Total** | **91,625** | **79,935** | **33,005** | **92,940** | **28,223** | **6,876** | **6,876** | **(1,723)** |

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2013:

| In thousands of GEL | Place of business (and country of incorporation if different) | Proportion of non-controlling interest | Proportion of non-controlling interest's voting rights held | Profit attributable to non-controlling interest | Accumulated non-controlling interest in the subsidiary | Dividends paid to non-controlling interest during the year |
|---|---|---|---|---|---|---|
| TBC Leasing JSC | Georgia | 10.47% | 10.47% | 60 | 624 | – |
| TBC Kredit LLC | Azerbaijan | 25.00% | 25.00% | 833 | 6,036 | – |
| United Financial Corporation JSC | Georgia | 6.68% | 6.68% | 35 | 303 | – |
| Bank Constanta JSC | Georgia | 16.15% | 16.15% | 1,726 | 7,704 | – |
| **Total** | | | | **2,654** | **14,667** | **–** |

The summarised financial information of these subsidiaries was as follows at 31 December 2013:

| In thousands of GEL | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Revenue | Profit | Total comprehensive income | Cash flows |
|---|---|---|---|---|---|---|---|---|
| TBC Leasing JSC | 33,570 | 24,212 | 27,160 | 24,664 | 3,767 | 573 | 573 | 996 |
| TBC Kredit LLC | 41,867 | 31,814 | 26,024 | 22,150 | 11,291 | 3,334 | 3,334 | 1,120 |
| United Financial Corporation JSC | 1,529 | 4,712 | 1,046 | 286 | 6,758 | 522 | 522 | 71 |
| Bank Constanta JSC | 195,077 | 150,631 | 134,591 | 160,989 | 55,972 | 11,271 | 11,271 | 2,362 |
| **Total** | **272,043** | **211,369** | **188,821** | **208,089** | **77,788** | **15,700** | **15,700** | **4,549** |

## 37 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2015:

| 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 instruments (d) | Cash collateral received (e) | |
| **ASSETS** | | | | | | |
| *Cash and cash equivalents* | | | | | | |
| – Reverse repo | 47,768 | – | 47,768 | 47,768 | – | – |
| *Other financial assets:* | | | | | | |
| – Receivables on credit card services and money transfers | 17,821 | 2,749 | 15,072 | – | – | 15,072 |
| **TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT** | **65,589** | **2,749** | **62,840** | **47,768** | **–** | **15,072** |
| **LIABILITIES** | | | | | | |
| *Other financial liabilities:* | | | | | | |
| – Payables on credit card services and money transfers | 42,184 | 2,749 | 39,435 | – | – | 39,435 |
| **TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT** | **42,184** | **2,749** | **39,435** | **–** | **–** | **39,435** |

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2014:

| 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 instruments (d) | Cash collateral received (e) | |
| **ASSETS** | | | | | | |
| *Other financial assets:* | | | | | | |
| – Receivables on credit card services and money transfers | 11,399 | 1,959 | 9,440 | – | – | 9,440 |
| **TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT** | **11,399** | **1,959** | **9,440** | **–** | **–** | **9,440** |
| **LIABILITIES** | | | | | | |
| *Other financial liabilities:* | | | | | | |
| – Payables on credit card services and money transfers | 43,305 | 1,959 | 41,346 | – | – | 41,346 |
| **TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT** | **43,305** | **1,959** | **41,346** | **–** | **–** | **41,346** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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### 37 Offsetting Financial Assets and Financial Liabilities continued
Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

| 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: Financial instruments (d) | Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e) | Net amount of exposure (c) - (d) - (e) |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| *Other financial assets:* | | | | | | |
| – Receivables on credit card services and money transfers | 7,481 | 924 | 6,557 | – | – | 6,557 |
| **TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT** | **7,481** | **924** | **6,557** | **–** | **–** | **6,557** |
| **LIABILITIES** | | | | | | |
| *Other financial liabilities:* | | | | | | |
| – Payables on credit card services and money transfers | 25,774 | 924 | 24,850 | – | – | 24,850 |
| **TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT** | **25,774** | **924** | **24,850** | **–** | **–** | **24,850** |

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 arrangement have been netted-off in these financial statements and the instrument has been presented as either asset or a liability at 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.

### 38 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 | 2015 | 2014 | 2013 |
|---|---|---|---|
| Fair value of gross settled currency swaps, included in other financial assets or due from banks | **605** | 618 | 1,221 |
| Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities | **(108)** | (2,502) | – |
| Fair value of Interest rate swaps, included in other financial liabilities | **(2,303)** | (3,137) | (4,405) |
| **Total** | **(1,806)** | **(5,021)** | **(3,184)** |

***Foreign Exchange Forwards and gross settled currency swaps.*** Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market 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 entered into by the Group. 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 in nature.

## 38 Derivative Financial Instruments continued

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| 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 (-) | **–** | **(85,754)** | – | (222,231) | – | (91,590) |
| – USD receivable on settlement (+) | **13,821** | **–** | 29,031 | – | 31,398 | – |
| – GEL payable on settlement (-) | **–** | **(10,427)** | – | (26,530) | – | – |
| – GEL receivable on settlement (+) | **13,857** | **–** | 81,865 | – | – | (31,569) |
| – EUR payable on settlement (-) | **–** | **(1,309)** | – | (604) | – | – |
| – EUR receivable on settlement (+) | **34,024** | **–** | 118,272 | – | 76,450 | – |
| – Other payable on settlement (-) | **–** | **(1,963)** | – | (1,479) | – | (637) |
| – Other receivable on settlement (+) | **38,248** | **–** | 19,792 | – | 17,169 | – |
| **Fair value of foreign exchange forwards and gross settled currency swaps** | **99,950** | **(99,453)** | **248,960** | **(250,844)** | **125,017** | **(123,796)** |
| **Net fair value of foreign exchange forwards and gross settled currency swaps** | **497** | **–** | **–** | **(1,884)** | **1,221** | **–** |

***Interest rate swaps.*** In March 2010 TBC Bank entered into interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expires in November 2018. At the reporting date fair value of interest rate swaps was estimated to be negative GEL 2,303 thousand (2014: negative GEL 3,137 thousand; 2013: negative GEL 4,405 thousand).

Information on related party balances is disclosed in Note 41.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 39 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 are as follows:

| | 31 December 2015 | | | | 31 December 2014 | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 available for sale* | | | | | | | | | | | | |
| – Government notes | – | 998 | – | **998** | – | 232,934 | – | **232,934** | – | 173,974 | – | **173,974** |
| – Certificates of Deposits of National Bank of Georgia | – | 84,849 | – | **84,849** | – | 198,233 | – | **198,233** | – | 321,140 | – | **321,140** |
| – Corporate bonds | – | 174,916 | – | **174,916** | – | 25,034 | – | **25,034** | – | – | – | **–** |
| – Ministry of Finance Treasury Bills | – | 33,445 | – | **33,445** | – | 476 | – | **476** | – | – | – | **–** |
| – Corporate shares (Visa Inc.) | 9,335 | – | – | **9,335** | 6,140 | – | – | **6,140** | 4,858 | – | – | **4,858** |
| Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks | – | 604 | – | **604** | – | 618 | – | **618** | – | 1,221 | – | **1,221** |
| **NON-FINANCIAL ASSETS** | | | | | | | | | | | | |
| – Premises and leasehold improvements | – | – | 175,184 | **175,184** | – | – | 132,346 | **132,346** | – | – | 138,939 | **138,939** |
| **TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS** | **9,335** | **294,812** | **175,184** | **479,331** | **6,140** | **457,295** | **132,346** | **595,781** | **4,858** | **496,335** | **138,939** | **640,132** |
| **LIABILITIES CARRIED AT FAIR VALUE** | | | | | | | | | | | | |
| **FINANCIAL LIABILITIES** | | | | | | | | | | | | |
| – Interest rate swaps included in other financial liabilities | – | 2,303 | – | **2,303** | – | 3,137 | – | **3,137** | – | 4,405 | – | **4,405** |
| Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities | – | 108 | – | **108** | – | 2,502 | – | **2,502** | – | – | – | **–** |
| **TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS** | **–** | **2,411** | **–** | **2,411** | **–** | **5,639** | **–** | **5,639** | **–** | **4,405** | **–** | **4,405** |

There were no transfers between levels 1 and 2 during the year ended 31 December 2015 (2014: none, 2013: none).

## 39 Fair Value Disclosures continued

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

| In thousands of GEL | Fair value at 31 December 2015 | 2014 | 2013 | Valuation technique | Inputs used |
|---|---|---|---|---|---|
| **ASSETS AT FAIR VALUE** | | | | | |
| **FINANCIAL ASSETS** | | | | | |
| Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds | 294,208 | 456,677 | 495,114 | Discounted cash flows ("DCF") | Government bonds yield curve |
| Foreign exchange forwards and gross settled currency swaps, included in due from banks | 604 | 618 | 1,221 | Forward pricing using present value calculations | Official exchange rate, risk-free rate |
| **TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS** | **294,812** | **457,295** | **496,335** | | |
| **LIABILITIES CARRIED AT FAIR VALUE** | | | | | |
| **FINANCIAL LIABILITIES** | | | | | |
| ***Other financial liabilities*** | | | | | |
| – Interest rate swaps included in other financial liabilities | 2,303 | 3,137 | 4,405 | Swap model using present value calculations | Observable yield curves |
| – Foreign exchange forwards included in other financial liabilities | 108 | 2,502 | – | Forward pricing using present value calculations | Official exchange rate, risk-free rate |
| **TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2** | **2,411** | **5,639** | **4,405** | | |

There were no changes in valuation technique for level 2 and level 3 recurring fair value measurements during the year ended 31 December 2015 (2014: none; 2013: none).

For description of 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 metre: the higher the price per square metre, the higher the fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## CONTINUED

### 39 Fair Value Disclosures continued
**(b) Assets and liabilities not measured at fair value but for which fair value is disclosed**

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

| In thousands of GEL | 31 December 2015 | | | | 31 December 2014 | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 720,347 | – | – | 720,347 | 532,118 | – | – | 532,118 | 390,465 | – | – | 390,465 |
| Due from other banks | 11,042 | – | – | 11,042 | 33,704 | – | – | 33,704 | 1,708 | – | – | 1,708 |
| Mandatory cash balances with the NBG | – | 471,490 | – | 471,490 | – | 336,075 | – | 336,075 | – | 295,332 | – | 295,332 |
| Loans and advances to customers: | | | | | | | | | | | | |
| – Corporate loans | – | – | 1,504,360 | 1,392,054 | – | – | 1,221,155 | 1,140,503 | – | – | 1,172,503 | 1,049,668 |
| – Consumer loans | – | – | 870,285 | 831,588 | – | – | 780,259 | 744,290 | – | – | 607,940 | 571,730 |
| – Mortgage loans | – | – | 906,240 | 892,139 | – | – | 729,013 | 707,979 | – | – | 519,180 | 491,136 |
| – Small and micro loans | – | – | 616,803 | 613,122 | – | – | 533,527 | 528,631 | – | – | 397,229 | 388,131 |
| – Micro | – | – | 493,125 | 475,309 | – | – | 264,303 | 266,091 | – | – | 193,784 | 196,395 |
| – Others | – | – | 241,733 | 240,674 | – | – | 168,231 | 169,002 | – | – | 103,896 | 104,652 |
| Bonds carried at amortised cost | – | 350,167 | – | 372,092 | – | – | – | – | – | – | – | – |
| Investments in leases | – | – | 80,018 | 75,760 | – | – | 50,907 | 50,907 | – | – | 35,613 | 35,613 |
| Other financial assets | – | – | 63,713 | 63,713 | – | – | 43,239 | 43,239 | – | – | 43,828 | 43,828 |
| **NON-FINANCIAL ASSETS** | – | – | | | – | – | | | | | | |
| Investment properties, at cost | – | – | 105,972 | 57,600 | – | – | 79,057 | 76,216 | – | – | 86,480 | 83,383 |
| **TOTAL ASSETS** | **731,389** | **821,657** | **4,882,249** | **6,216,930** | **565,822** | **336,075** | **3,869,691** | **4,628,755** | **392,173** | **295,332** | **3,160,453** | **3,652,041** |
| **FINANCIAL LIABILITIES** | | | | | | | | | | | | |
| Due to credit institutions | – | 1,113,666 | – | 1,113,574 | – | 749,285 | – | 749,285 | – | 565,806 | – | 565,806 |
| Customer accounts | – | 2,372,794 | 1,812,575 | 4,177,931 | – | 1,857,089 | 1,483,891 | 3,322,428 | – | 1,690,812 | 1,206,300 | 2,886,883 |
| Debt securities in issue | – | 21,714 | – | 21,714 | – | 20,423 | – | 20,423 | – | 4,474 | – | 4,474 |
| Other financial liabilities | – | 37,024 | – | 37,024 | – | 35,707 | – | 35,707 | – | 20,445 | – | 20,445 |
| Subordinated debt | – | 284,985 | – | 283,648 | – | 188,015 | – | 188,015 | – | 168,274 | – | 168,274 |
| **TOTAL LIABILITIES** | **–** | **3,830,183** | **1,812,575** | **5,633,891** | **–** | **2,850,519** | **1,483,891** | **4,315,858** | **–** | **2,449,811** | **1,206,300** | **3,645,882** |

## 39 Fair Value Disclosures continued

The fair values in 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 estimated 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 amount could be required to be paid by the Group.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2015 (2014: none; 2013: none).

## 40 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, 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. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2015:

| In thousands of GEL | Loans and receivables | Available for sale assets | Finance lease receivables | Assets designated at FVTPL | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | – | – | – | – | **720,347** |
| Due from other banks | 11,042 | – | – | – | **11,042** |
| Mandatory cash balances with the National Bank of Georgia | 471,490 | – | – | – | **471,490** |
| Loans and advances to customers | 4,444,886 | – | – | – | **4,444,886** |
| Investment securities available for sale | – | 307,310 | – | – | **307,310** |
| Bonds carried at amortised cost | 372,092 | – | – | – | **372,092** |
| Investments in leases | – | – | 75,760 | – | **75,760** |
| Other financial assets: | | | | | |
| – Other financial receivables | 64,304 | – | – | 13 | **64,317** |
| **TOTAL FINANCIAL ASSETS** | **5,363,814** | **307,310** | **75,760** | **13** | **6,467,244** |
| **NON-FINANCIAL ASSETS** | **–** | **–** | **–** | **–** | **467,751** |
| **TOTAL ASSETS** | **–** | **–** | **–** | **–** | **6,934,995** |

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2014:

| In thousands of GEL | Loans and receivables | Available for sale assets | Finance lease receivables | Assets designated at FVTPL | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | – | – | – | – | **532,118** |
| Due from other banks | 33,704 | – | – | – | **33,704** |
| Mandatory cash balances with the National Bank of Georgia | 336,075 | – | – | – | **336,075** |
| Loans and advances to customers | 3,556,496 | – | – | – | **3,556,496** |
| Investment securities available for sale | – | 466,510 | – | – | **466,510** |
| Investments in leases | – | – | 50,907 | – | **50,907** |
| Other financial assets: | | | | | |
| – Other financial receivables | 43,239 | – | – | 618 | **43,857** |
| **TOTAL FINANCIAL ASSETS** | **3,969,514** | **466,510** | **50,907** | **618** | **5,019,667** |
| **NON-FINANCIAL ASSETS** | **–** | **–** | **–** | **–** | **403,799** |
| **TOTAL ASSETS** | **–** | **–** | **–** | **–** | **5,423,466** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 40 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 2013:

| In thousands of GEL | Loans and receivables | Available for sale assets | Finance lease receivables | Assets designated at FVTPL | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | – | – | – | – | **390,465** |
| Due from other banks | 1,708 | – | – | – | **1,708** |
| Mandatory cash balances with the National Bank of Georgia | 295,332 | – | – | – | **295,332** |
| Loans and advances to customers | 2,801,712 | – | – | – | **2,801,712** |
| Investment securities available for sale | – | 500,651 | – | – | **500,651** |
| Investments in leases | – | – | 35,613 | – | **35,613** |
| Other financial assets: | | | | | |
| – Other financial receivables | 43,828 | – | – | 1,221 | **45,049** |
| **TOTAL FINANCIAL ASSETS** | **3,142,580** | **500,651** | **35,613** | **1,221** | **4,070,530** |
| **NON-FINANCIAL ASSETS** | **–** | **–** | **–** | **–** | **380,545** |
| **TOTAL ASSETS** | **–** | **–** | **–** | **–** | **4,451,075** |

As at 31 December 2015, 2014 and 2013, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

## 41 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making 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 that hold more than 6% of ownership stake in the Bank or have their representatives in the Supervisory Board are considered as Significant Shareholders, as they are considered to have ability to significantly affect the Bank. Included in key management personnel are members of the Supervisory Board, the Management Board and close members of the family.

At 31 December 2015, the outstanding balances with related parties were as follows:

| In thousands of GEL | Note | Significant shareholders | Key management personnel |
|---|---|---|---|
| Gross amount of loans and advances to customers (contractual interest rate: 7.3 - 20%) | | 3,179 | 1,963 |
| Impairment provisions for loans and advances to customers | | 45 | 7 |
| Derivative financial liability | 38 | 2,303 | – |
| Due to credit institutions (contractual interest rate: 5.2 – 11.3%) | | 63,810 | – |
| Customer accounts (contractual interest rate: 0 – 7.5%) | | 8,924 | 10,253 |
| Subordinated debt (contractual interest rate: –12.6%) | | 132,530 | – |

The income and expense items with related parties except from key management compensation for the year 2015 were as follows:

| In thousands of GEL | Note | Significant shareholders | Key management personnel |
|---|---|---|---|
| Interest income | | 438 | 139 |
| Interest expense | | 20,747 | 537 |
| Gains less losses from trading in foreign currencies | | 139 | 40 |
| Foreign exchange translation gains less losses | | 1,160 | 28 |
| Fee and commission income | | 12 | 16 |
| Fee and commission expense | | 726 | – |
| Administrative and other operating expenses (excluding staff costs) | | 48 | 288 |
| Net loss on derivative financial instruments | 38 | 575 | – |

## 41 Related Party Transactions continued

Aggregate amounts of loans advanced to and repaid by related parties during 2015 were:

| In thousands of GEL | Significant shareholders | Key management personnel |
|---|---|---|
| Amounts advanced to related parties during the year | 1,684 | 2,972 |
| Amounts repaid by related parties during the year | (5,486) | (2,492) |

At 31 December 2014, the outstanding balances with related parties were as follows:

| In thousands of GEL | Note | Significant shareholders | Key management personnel |
|---|---|---|---|
| Gross amount of loans and advances to customers (contractual interest rate: 7.5 – 23%) | | 5,383 | 1,315 |
| Impairment provisions for loans and advances to customers | | 190 | 9 |
| Derivative financial liability | 38 | 3,137 | – |
| Due to credit institutions (contractual interest rate: 0 – 13%) | | 63,542 | – |
| Customer accounts (contractual interest rate: 0 – 9.5%) | | 5,925 | 7,302 |
| Subordinated debt (contractual interest rate: 9.2 – 12%) | | 102,859 | – |

The income and expense items with related parties except from key management compensation for the year 2014 were as follows:

| In thousands of GEL | Note | Significant shareholders | Key management personnel |
|---|---|---|---|
| Interest income | | 551 | 114 |
| Interest expense | | 15,408 | 350 |
| Gains less losses from trading in foreign currencies | | 56 | 26 |
| Foreign exchange translation gains less losses | | 331 | 51 |
| Fee and commission income | | 9 | 10 |
| Fee and commission expense | | 926 | – |
| Administrative and other operating expenses (excluding staff costs) | | 70 | 164 |
| Net loss on derivative financial instruments | 38 | (683) | – |

Aggregate amounts of loans advanced to and repaid by related parties during 2014 were:

| In thousands of GEL | Significant shareholders | Key management personnel |
|---|---|---|
| Amounts advanced to related parties during the year | 2,074 | 3,042 |
| Amounts repaid by related parties during the year | (7,501) | (3,204) |

At 31 December 2013, the outstanding balances with related parties were as follows:

| In thousands of GEL | Note | Significant shareholders | Key management personnel |
|---|---|---|---|
| Gross amount of loans and advances to customers (contractual interest rate: 13 - 26%) | | 9,928 | 1,312 |
| Impairment provisions for loans and advances to customers | | 152 | 15 |
| Derivative financial liability | 38 | 4,405 | – |
| Due to credit institutions (contractual interest rate: 0 – 13%) | | 67,894 | – |
| Customer accounts (contractual interest rate: 0 – 13%) | | 5,421 | 4,598 |
| Subordinated debt (contractual interest rate: 5 – 11%) | | 95,458 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

## 41 Related Party Transactions continued

The income and expense items with related parties except from key management compensation for the year 2013 were as follows:

| In thousands of GEL | Note | Significant shareholders | Key management personnel |
|---|---|---|---|
| Interest income | | 1,527 | 159 |
| Interest expense | | 14,596 | 352 |
| Gains less losses from trading in foreign currencies | | 67 | 9 |
| Foreign exchange translation (losses less gains) / gains less losses | | (227) | 50 |
| Fee and commission income | | 10 | 7 |
| Fee and commission expense | | 993 | – |
| Administrative and other operating expenses (excluding staff costs) | | 67 | 205 |
| Net gain on derivative financial instruments | 38 | 613 | – |

At 31 December 2013, other rights and obligations with related parties were as follows:

| In thousands of GEL | Significant shareholders | Key management personnel | Other related parties |
|---|---|---|---|
| Guarantees issued by the Group at the year end | – | – | 5,401 |

Aggregate amounts of loans advanced to and repaid by related parties during 2013 were:

| In thousands of GEL | Significant shareholders | Key management personnel |
|---|---|---|
| Amounts advanced to related parties during the year | 4,246 | 1,751 |
| Amounts repaid by related parties during the year | (8,756) | (2,218) |

Compensation of the key management personnel and Supervisory Board members is presented below:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| In thousands of GEL | Expense | Accrued liability | Expense | Accrued liability | Expense | Accrued liability |
| Salaries and bonuses | 9,939 | 867 | 10,096 | 3,929 | 8,783 | 3,798 |
| Cash-settled bonuses related to share-based compensation | 4,748 | 5,254 | 1,463 | 2,012 | 1,692 | 1,692 |
| Equity-settled share-based compensation | 6,864 | – | 2,192 | – | 1,671 | – |
| **Total** | **21,551** | **6,121** | **13,751** | **5,941** | **12,146** | **5,490** |

# ADDITIONAL INFORMATION

## Shareholders' Meetings

According to the Charter, regular General Meetings of Shareholders must be convened annually not later than three months from the day of preparation of the annual balance sheet. Extraordinary General Meetings of Shareholders must be convened within 20 days from submission of the written request of the Management Board, Supervisory Board or shareholders holding at least 5% of the Shares of TBC Bank. Shareholders may request the convening of a General Meeting of Shareholders only if at least one month has elapsed since the date of the prior General Meeting of Shareholders. If shareholder(s) holding at least 5% of the shares request that an Extraordinary General Meeting of Shareholders is convened and the only item on the agenda is the dismissal of Management Board member(s), the Supervisory Board must call the meeting within 20 days, otherwise the shareholders themselves may convene the meeting.

The time, place and the agenda of the General Meeting of Shareholders shall be published in printed media at least 20 days prior to the date of such General Meeting of Shareholders. Shareholders holding at least 1% of the shares should also be notified about the General Meeting of Shareholders via registered mail. The Supervisory Board shall set a reporting date which cannot be earlier than 45 days before the scheduled General Meeting of Shareholders. Only those shareholders who were shareholders of record as of the reporting date set by the Supervisory Board may participate in the General Meeting of Shareholders.

Any shareholder holding an ordinary share may attend and vote at the meeting personally or through proxy, and the quorum of the General Meeting of Shareholders is satisfied if the holders of more than 50% of all votes are present or represented at the General Meeting of Shareholders. If the General Meeting of Shareholders is not quorate, the Supervisory Board must convene a new General Meeting of Shareholders with the same agenda, which will be quorate if the holders of more than 25% of all votes are present or represented. If the General Meeting of Shareholders convened for the second time is not quorate, the Supervisory Board must convene a further General Meeting of Shareholders with the same agenda, which will be quorate irrespective of the number of shareholders present or represented at the General Meeting of Shareholders.

General Meetings of Shareholders are presided over by the Chairman of the Supervisory Board or, in his absence, by the Deputy Chairman of the Supervisory Board. In the event that the latter is also absent, the meeting is presided over by one of the other Directors.

The Company's 2016 Annual General Meeting will be held on 25 April 2016 at 10.00 am (Tbilisi time) at 7 Marjanishvili Street, Tbilisi, Georgia.

All related documentation is available to view on the Company's IR website. A copy of the Notice of Meeting has been submitted to the National Storage Mechanism at www.morningstar.co.uk/uk/nsm.

The Supervisory Board of the Company also announced its intention to recommend a dividend for the year ended 31 December 2015 in the amount of GEL 1.09 (gross of taxes) per share. This annual dividend is subject to approval by the shareholders at the Company's Annual General Meeting.

If the annual dividend is approved at the Annual General Meeting, the Company envisions the following timetable:

- Dividend Record Date: 3 May 2016
- Dividend Payment Date: 11 May 2016

## Dialogue with Shareholders

Per usual practice, the Chairman and the Deputy Chairman of the Supervisory Board discuss the Bank's governance and strategy with major shareholders and ensure that the views of shareholders are communicated to the Board as a whole. Among other things, these meetings include the Chairman's participation in the non-deal roadshows post-listing. Non-executive Directors together with the Executive Directors have the opportunity to attend scheduled meetings with the major shareholders to gain a balanced understanding of their issues and concerns.

## Dividend Policy

On 8 April 2009 the Management Board adopted, and the Supervisory Board approved, the Capital Management and Dividend Planning Policy of TBC Bank in order to ensure current capital adequacy, to plan for future capital needs and project efficient dividend payouts. The general objective of the Dividend Policy is to manage the capital position with the regular dividend payouts in the amount that will not only ensure compliance with internal regulations but also ensure capital adequacy for TBC's future expansion.

On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net income for the previous year as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution.

TBC's dividend strategy is based on two major priorities: (i) maintaining adequate capital for TBC Bank; and (ii) ensuring consistency of dividend payment to shareholders in sufficient amounts. Excessive dividends will not be paid out if it jeopardises TBC's current capital adequacy or future growth opportunities. Dividend payments are made only when: (a) the dividends are in compliance with TBC Bank's approved capital plan; (b) the dividend amounts are in accordance with all regulatory requirements and internal regulations of TBC Bank, thus not putting in jeopardy future expansion; and (c) the dividend payments do not adversely impact TBC's capital structure and related regulatory capital ratio requirements.

## Disclaimer

By reading this Report, you acknowledge and agree to be bound by the following:

None of the future projections, expectations, estimates or prospects in this Report should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in the Report. These forward-looking statements speak only as at the date as of which they are made, and the Bank expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in the Report to reflect actual results, changes in assumptions or changes in factors affecting these statements.

The information and opinions contained in this Report are provided as at the date of the Report, are based on general information gathered at such date and are subject to change without notice. The Bank relies on information obtained from sources believed to be reliable but does not guarantee its accuracy or completeness.

Neither the Bank, nor any of its respective agents, employees or advisers intends or has any duty or obligation to provide the recipient with access to any additional information, to amend, update or revise this Report or any information contained in the Report.

This Report is provided for information purposes only and does not constitute an offer to sell or the solicitation of an offer to buy securities. No part of this Report, nor the fact of its publication, should form the basis of or be relied on in connection with any contract or commitment or investment decision.