TBC BANK

2018

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

MANAGEMENT REPORT AND
FINANCIAL STATEMENTS 2018

2018

TBC BANK


თიბისი ბანკი
TBC BANK

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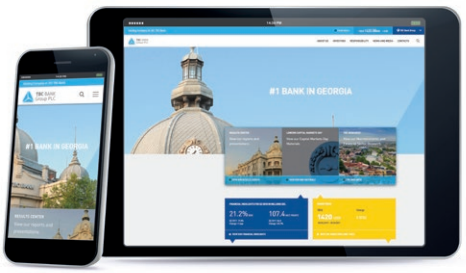
TBC Bank[1] is the largest banking group in Georgia - serving around 83% of the country's adult population.

CONTENTS

MANAGEMENT REPORT

GOVERNANCE

FINANCIAL STATEMENTS



For more information visit our website www.tbcbank.ge

1 TBC Bank refers to JSC TBC Bank (the Bank) and its subsidiaries (together Group)

GROUP HIGHLIGHTS 2018

ROBUST PROFITABILITY AND STRONG EFFICIENCY LEVELS

₾ 433.3 mln
+ 19.4% YoY
NET PROFIT

22.7%
+ 1.3pp YoY
RETURN ON AVERAGE EQUITY

3.2%
0.0pp YoY
RETURN ON AVERAGE ASSETS

37.1%
- 3.7pp YoY
COST TO INCOME RATIO

STRONG GROWTH AND SOUND ASSET QUALITY

₾ 10,372.6 mln
+ 21.3% YoY
TOTAL LOANS (BEFORE IMPAIREMENT)

₾ 9,444.7 mln
+ 20.5% YoY
TOTAL DEPOSITS

3.1%
- 0.2pp YoY
NON-PERFORMING LOANS

SOLID CAPITAL AND LIQUIDITY LEVELS

12.8%
- 0.6pp YoY
TIER I CAPITAL

17.9%
+ 0.4pp YoY
TOTAL CAPITAL

89.1%
- 3.1pp YoY
NET LOANS TO DEPOSITS PLUS IFI FUNDING

BEST-IN-CLASS DIGITAL CHANNELS

90.6%
+ 2.3pp YoY
OFFLOADING RATIO

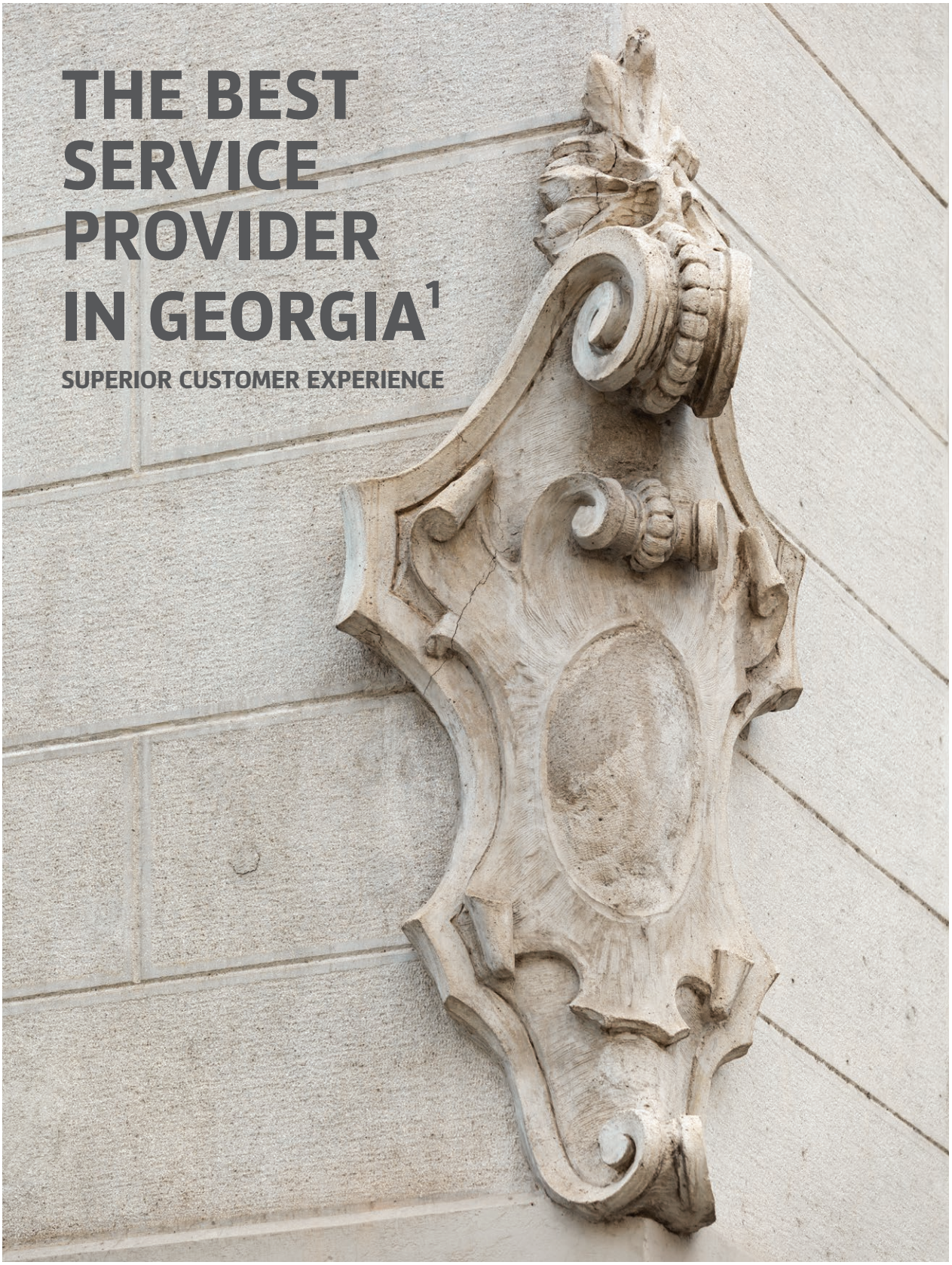
37.0%
+ 5.6pp YoY
MOBILE BANKING PENETRATION

43.7%
+ 3.3pp YoY
MOBILE AND INTERNET BANKING PENETRATION

HIGH EMPLOYEE SATISFACTION LEVEL

66%
+ 11pp YoY
ENPS

87%
- 4pp YoY
ENGAGEMENT INDEX



THE BEST SERVICE PROVIDER IN GEORGIA[1]

SUPERIOR CUSTOMER EXPERIENCE

1 Based on survey conducted by independent research company IPM among retail segment in December 2018

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

WHO WE ARE

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

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

KEY OPERATING DATA

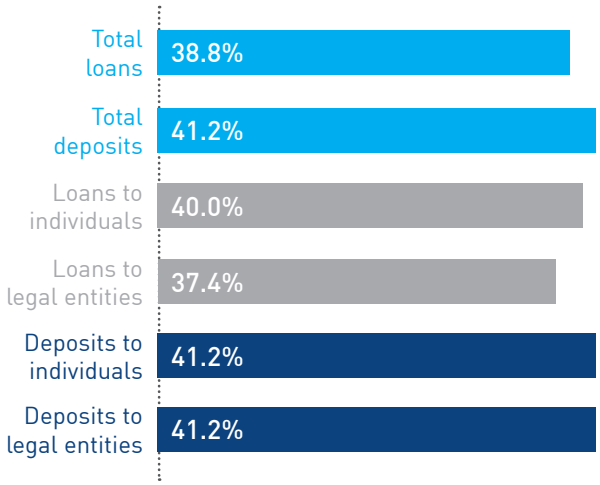
Number of customers: c.2,400,000

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

Number of branches: 149

Number of employees: c.7,100

NUMBER ONE MARKET POSITION BY ALL KEY METRICS[1]



OUR CORE VALUES

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

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

HOW WE ARE DIFFERENT

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

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

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

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

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

Find out more about our strategy on pages 12 to 21

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

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

FINANCIAL PERFORMANCE

Our consolidated net profit reached GEL 433.3 million, up by 19.4% compared to 2017. Our return on equity was 22.7% while the return on assets stood at 3.2%. Our robust profitability was driven by strong income generation, improved cost efficiency and prudent risk management. We also maintained a solid net interest margin, at 6.8%, up by 0.4 pp year-on-year and managed to achieve a strong increase in net fee and commission income, up by 25.4% year-on-year. Over the same period, our cost to income ratio decreased by 3.7 pp and stood at 37.1%, while cost of risk stood at 1.6% or 1.5% without currency effect.

In terms of balance sheet growth, our loan book expanded by 21.3% year-on-year, supported by increase across all business segments which resulted in a market share of 38.8%[1], up by 0.6 pp year-on-year. Our asset quality remained sound with non-performing ratio standing low at 3.1%. Over the same period, deposits increased by 20.5%, thus bringing our deposit market share to 41.2%[1], up by 1.4 pp year-on-year.

Our capital and liquidity ratios continued to remain solid. As of 31 December 2018, our tier 1 and total capital adequacy ratios (CAR) per Basel III guidelines were 12.8% and 17.9% respectively, compared to the corresponding minimum regulatory requirements of 11.8% and 16.7%. At the same time, our net loans to deposits + IFI funding ratio stood at 89.1% and the net stable funding ratio (NSFR) was 126.9%.

STRATEGIC PROGRESS AND NEW PRIORITIES

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

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

MACROECONOMIC OVERVIEW

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

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

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

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

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

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

OUTLOOK

I am confident that our long-term strategy will generate high returns and provide sustainable value for our shareholders.

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

Vakhtang Butskhrikidze
CEO
25 April 2019

1 Based on data published by National Bank of Georgia as of 31 December 2018
2 For selected products being offered through remote channels:pre-approved loans, credit cards, limit increase and opening of accounts
3 Based on initial estimates of Geostat
4 Additional details about the South Caucasus' pipeline project can be found on www.bp.com/en_ge/bp-georgia/about-bp/bp-in-georgia/south-caucasus-pipeline--scp-.html


ქართული
#WRITEINGEORGIAN
#წერექართულად
საბა
SABA
თიბისი

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

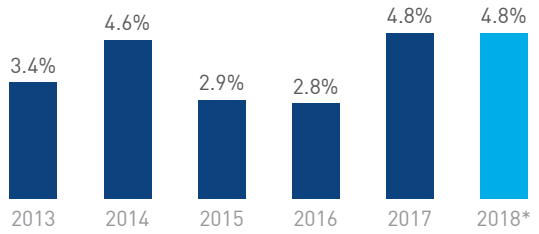
Everyone can contribute to the process by translating sentences online.

www.kartulad.ge

ECONOMIC GROWTH

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

Real GDP Growth



Source: Geostat
*initial estimates

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

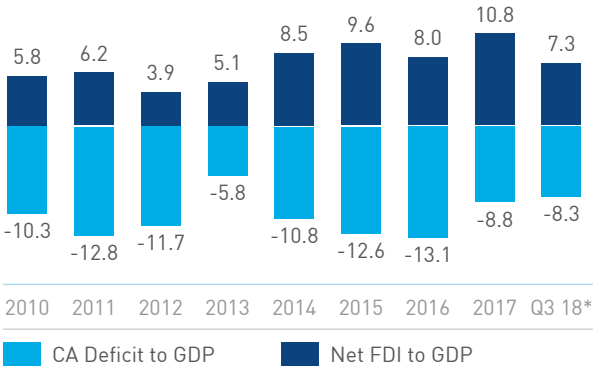
EXTERNAL INFLOWS

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

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

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

CA Deficit and Net FDI (% of GDP)



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

FISCAL POLICY

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

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

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

INFLATION AND MONETARY POLICY

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

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

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

FINANCIAL SECTOR

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

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

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

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

GOING FORWARD

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

ABOUT TBC RESEARCH

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

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

OUR KEY STRENGTHS

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

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

- 28.5%[1] loan book CAGR for the 2013-2018;
- 28.4% net profit CAGR for the 2013-2018;
- ROE above 20% since 2015.

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

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

STRONG BRAND AND REPUTATION

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

ADVANCED OMNI-CHANNEL PLATFORM WITH STRONG FOCUS ON DIGITAL

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

SUPERIOR CUSTOMER EXPERIENCE

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

LEADING PARTNER FOR BUSINESSES IN GEORGIA

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

HIGHLY MOTIVATED AND ENGAGED TEAM

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

EXPERIENCED MANAGEMENT TEAM AND HIGH-QUALITY CORPORATE GOVERNANCE

- Highly qualified and diverse board of directors with strong commitment to highest standards of corporate governance and business transparency.

EFFECTIVE RISK MANAGEMENT

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

1 On constatnt currency basis the growth was 23.0%
2 Based on number of CSR projects financed
3 The Banker, EMEA finance, Euromoney, Global Finance
4 Based on surveys conducted by the independent research companies IPM and ATC
5 Data is for FY 2018, source: www.napr.gov.ge, the National Agency of Public Registry
6 Employee Net Promotor score and Employee Engagement Index were measured by an independent consultant

KEY PERFORMANCE INDICATORS

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

In 2018, we have recorded strong net profit, up by 19.4% year-on-year. Our robust profitability was driven by strong income generation, improved cost efficiency and prudent risk management. Our net interest margin improved by 0.4 pp year-on-year and reached 6.8% in 2018 driven by the increase in loan yields and and decrease in cost of deposits, while cost to income ratio decreased by 3.7 pp to 37.1%. Over the same period, the increase in cost of risk by 0.4 pp to 1.6% was mainly due to currency depreciation and remained broadly stable without FX affect. As a result, our return on equity stood at 22.7%, while our return on assets stood at 3.2%.

In 2018, our loan book grew by 21.3% leading to the market share of 38.8% up by 0.6 pp year-on year. Our capital positions remains solid, with total tier 1 and total capital ratios standing at 12.8% and 17.9% respectively above the corresponding minimum requirements of 11.8% and 16.7%. We also achieved strong performance in digitalization: our offloading ratio increased by 2.3 pp and stood high at 90.6%, while our mobile banking penetration and mobile&internet banking penetration ratios grew year-on-year and amounted to 37.0% and 43.7% respectively. We are also proud to maintain our leading position as the Best Service Provider in Georgia. Furthermore, our employee engagement index and net promotor score remain exceptionally high.

NET PROFIT (IN MLN GEL)

growth **19.4%**

COST TO INCOME

reduction **3.7pp**

ROE

growth **1.3pp**

COST OF RISK

growth **0.4pp**

ROA

growth **0.0pp**

TIER 1 CAR (BASEL III)

reduction **0.6pp**

NIM

growth **0.4pp**

2018	6.8%
2017	6.4%

TOTAL CAR (BASEL III)

growth **0.4pp**

2018	17.9%
2017	17.5%

LOAN BOOK MARKET SHARE[1]

growth **0.6pp**

2018	38.8%
2017	38.2%

RETAIL TRANSACTIONS OFFLOADING RATIO

growth **2.3pp**

2018	90.6%
2017	88.3%

EMPLOYEE SATISFACTION[2]

ENPS

growth **11pp**

2018	66%
2017	55%

MOBILE BANKING PENETRATION RATIO

growth **5.6pp**

2018	37.0%
2017	31.4%

EMPLOYEE SATISFACTION[2]

Engagement index

reduction **4pp**

2018	87%
2017	91%

MOBILE AND INTERNET BANKING PENETRATION RATIO

growth **3.3pp**

2018	43.7%
2017	40.4%

CUSTOMER EXPERIENCE[3]

The best service provider in Georgia

reduction **3pp**

Dec 2018	50%
Feb 2018	53%

1 Based on data published by National Bank of Georgia as of 31 December 2018
2 Employee Net Promotor score and Employee Engagement Index were measured by an independent consultant
3 Based on survey conducted by independent research company IPM among retail segment in December 2018; The data for2017 is not available as we started conducting this survey in February 2018

OUR CUSTOMERS AND VALUE PROPOSITION

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

HOW WE GENERATE PROFIT

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

HOW WE SHARE VALUE WITH OUR STAKEHOLDERS

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

OUR STRATEGY

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

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

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

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

OUR STRATEGIC PRIORITIES	PROGRESS IN 2018
Maintain our leadership position and deliver sustainable growth We aim to retain our leadership position and grow together with the market, while maintaining high profitability level.	› Total loan book grew by 21.3% YoY increasing our market share in total loans by 0.6 pp to 38.8% › Return on Equity (ROE) increased by 1.3 pp YoY and stood at 22.7%
Further enhance our digital capabilities As digital innovators we constantly fine-tune our digital offerings with an intuitive design and new features as more and more customers are moving to our digital channels. We are also actively engaged with our young and digitally-savvy customers in order to develop the most innovative and modern solutions that meet their needs for high-tech products and services.	› Mobile banking penetration ratio increased by 5.6 pp YoY to 37.0% › Maintain offloading ratio as high as 90.6% up by 2.3 pp YoY › Launched Space, Georgia's first fully digital bank (for more details please see page 40)
Maintain robust profitability and margins We have launched the advanced analytics program across the Bank to sustain margins by conducting proper customer segmentation and pricing, as well as targeting the right product mix.	› NIM improved by 0.4 pp YoY and stood at 6.8%

Agile transformation and investment in human capital

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

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

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

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

Improving efficiency and competitiveness

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

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

- **Cost to income ratio decreased by 3.7 pp YoY and stood at 37.1%**
- **Cost per asset ratio decreased by 0.1 pp YoY and stood at 2.9%**

Further improve customer experience

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

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

- **Named "The Best Service Provider in Georgia"[1]**

1 Result of a survey conducted by the independent research company IPM among retail segment in December 2018

TBC BANK'S NEW HEAD OFFICE

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

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

RETAIL BANKING

2018 HIGHLIGHTS

40.0%
RETAIL LOAN MARKET SHARE[1]

41.2%
RETAIL DEPOSIT MARKET SHARE[1]

45.3%
RETAIL LOAN SHARE IN TOTAL PORTFOLIO

54.0%
RETAIL DEPOSIT SHARE IN TOTAL PORTFOLIO

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

90.6%
OFFLOADING RATIO

OVERVIEW

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

PROGRESS AGAINST STRATEGIC PRIORITIES IN 2018

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

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

OMNI-CHANNEL DISTRIBUTION PLATFORM

c.529,000 internet or mobile banking users

The award-winning Internet and mobile banking applications

95% of our customers answered within 15 seconds

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

149 branches

The wide network of branches with a customer centric design

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

The wide network of POS and self-service terminals

c.1,200 ATMs

The largest ATM network in Georgia together with partner banks

c.241,000 users

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

RETAIL SUB-SEGMENTS

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

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

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

TBC STATUS

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

- Individual approach and long-lasting relationship;
- Exceptional customer experience;
- Highly professional and experienced personal bankers
- Personalised banking products and services;
- Dedicated multi-channel with extended capabilities and a strong digital focus;
- Various lifestyle offerings through TBC Status concierge;
- Exclusive events and special discounts for the country's main cultural events, including TBC Bank's annual Jazz Festival.

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

1 Based on management accounts

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

Highlights[1]

2,158 mln
up by 38.7% YoY - TBC Status loan book

1,563 mln
up by 23.9% YoY - TBC Status deposit book

HIGH-NET-WORTH INDIVIDUALS (HNWI)

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

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

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

MAIN ACHIEVEMENTS IN 2018

- In 2018, our retail loan book grew by 18.1%[2] to GEL 4,699 million, mainly driven by an increase in mortgages, which represented 57.7% of the retail book. Slowdown in consumer lending is attributable to the reduction in the unsecured loan portfolio related to NBG regulation adopted in May 2018. Over the same period retail deposits increased by 16.6% to GEL 5,104 million, supported by the growth of both term and current and savings accounts. More information about the financial performance of the retail segment is provided under the section "Financial Review" on pages 82 to 86.

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

STRATEGY 2019

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

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

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

Rima Tsagareishvili,
Branch manager at Yves Rocher cosmetic store

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

Zviad Tatunashvil,
Philology student at Tbilisi State University

THE YOUNG GENERATION BEFRIENDS TI-BOT

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

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

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

CORPORATE AND INVESTMENT BANKING (CIB)

2018 HIGHLIGHTS

37.4%
CORPORATE LOAN MARKET SHARE[1]

30.6%
CORPORATE LOAN SHARE IN TOTAL PORTFOLIO

41.2%
CORPORATE DEPOSIT MARKET SHARE[1]

35.2%
CORPORATE DEPOSIT SHARE IN TOTAL PORTFOLIO

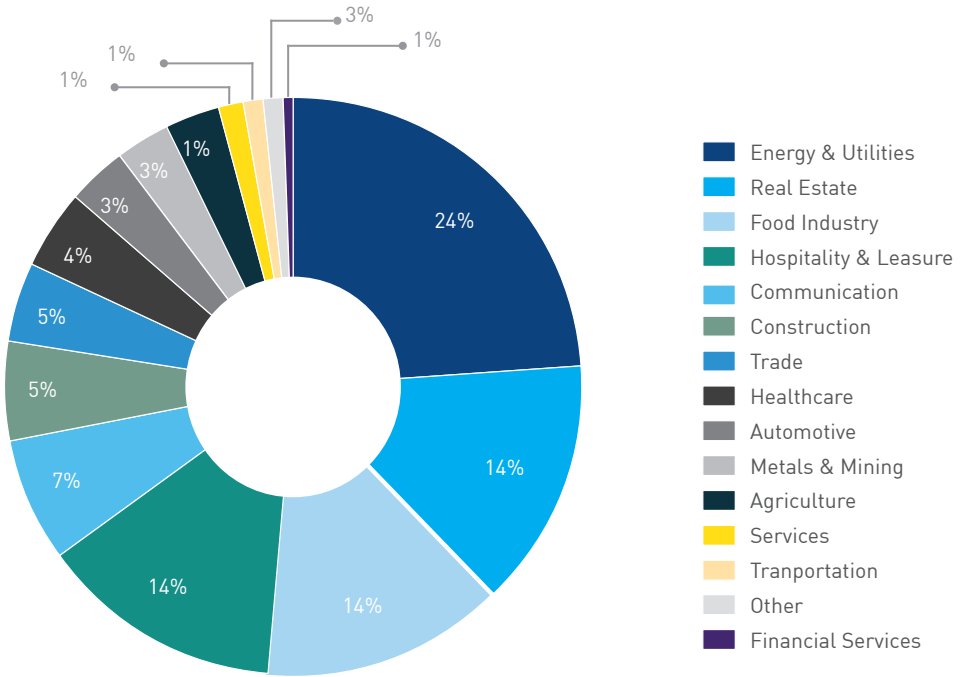
47.4%
CORPORATE GUARANTEE MARKET SHARE[1]

c.2,800
NUMBER OF CUSTOMERS

OVERVIEW

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

Corporate loan book breakdown by sectors



PROGRESS AGAINST STRATEGIC PRIORITIES IN 2018

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

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

MAIN ACHIEVEMENTS IN 2018

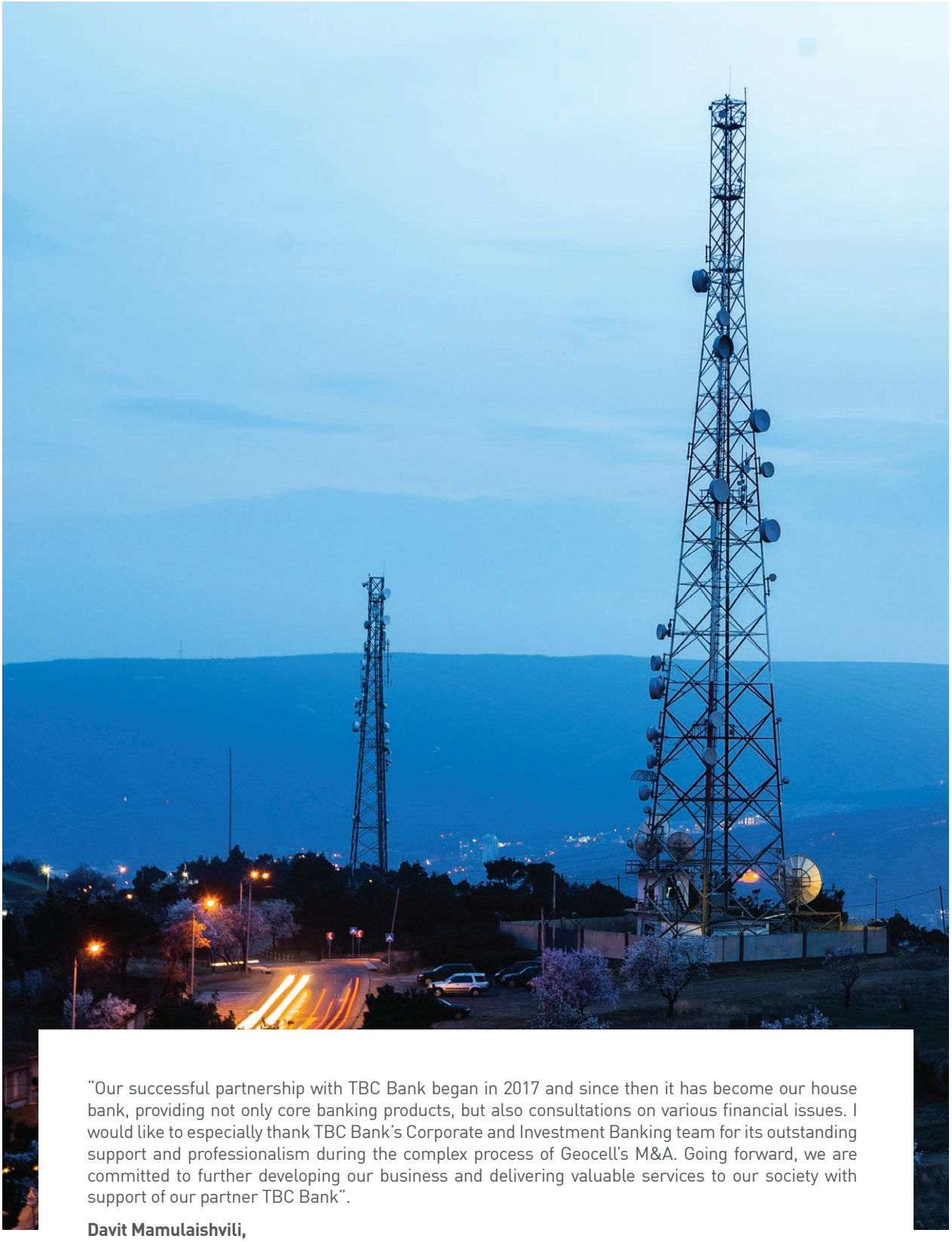
- In 2018, we achieved outstanding results in terms of client acquisition in both the large and mid-corporate segments. Our corporate loan book grew by 24.6%[1] YoY and reached GEL 3,177 million leading to a market share of 37.4% up by 1.4pp. Corporate deposits increased by 31.7%[2] YoY and reached GEL 3,323 million resulting in a market share of 41.2% up by 3.3pp. More information about the financial performance in the corporate segment is provided under section "financial review" on pages 82 to 86.
- In 2018, TBC Bank served as the sole mandated lead arranger for the largest M&A transaction in Georgia, which allowed us to position ourselves as a large project acquisition powerhouse. Silknet, Georgia's leading telecommunications operator, acquired Geocell, the country's second largest mobile operator for US$ 151.7 million. The transaction was the Georgia's largest syndicate consisting of nine participants, including Georgian and regional banks, as well as the largest debt facility arranged from local banks amounting to US$ 133 million. Out of the total financing, US$ 10 million was raised in bonds and TBC Capital acted a sole lead arranger of private bond placement.
- In 2018, our guarantee portfolio increased by 51.1% YoY and reached GEL 1,301 million, leading to a market share of 47.4%[3]. The prestigious international awards have recognized our strong trade finance capabilities: the Asian Development Bank named TBC Bank "Leading Partner Bank in Georgia in Trade Finance 2018", while Global Finance awarded us "The Best Trade Finance Provider in Georgia 2019".
- In terms of investment banking activities, in 2018 we completed several notable transactions. TBC Capital was the sole lead arranger for Silknet[4], Nikora Trade[5], TBC Leasing[6], Lisi Lake Development[7], Georgian Beer Company[8], BSTDB and FMO bonds via public and private placements. The bonds issued and listed by TBC Capital during the year increased by 400% YoY and amounted to GEL 305 million, which represented 55% of total bonds issued and listed on Georgian Stock Exchange in 2018. During the year, TBC Capital also served as advisor to Georgian Beer Company[8] and Lisi Lake Development to obtain and maintain a global credit rating. Furthermore, TBC Capital published two comprehensive research reports: Fixed Income Securities in Georgia and Georgian FMCG Sector Analysis. The full reports can be viewed at www.tbcresearch.ge under TBC Capital Reports section. In recognition of our efforts, in 2018 EMEA Finance magazine named TBC Bank "Best Investment Bank in Georgia 2017" and TBC Capital the "Best Broker in Georgia 2017."
- Our client-centric approach and tailor-made product offerings were translated into a strong cross-sell platform for our corporate clients. The number of corporate clients' payroll accounts increased by 16% YoY and reached 148,000, while payroll fund went up by 30% YoY totaling GEL176 million. Over the same period, the number of POS transactions grew by 145% YoY to 62 million, while the respective volumes went up by 156% YoY and reached GEL 2,625 million.

STRATEGY 2019

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

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


TBC CAPITAL
GEORGIAN
FMCG
SECTOR
ANALYSIS



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

Davit Mamulaishvili,
CEO of Silknet

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

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

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

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

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

MICRO, SMALL AND MEDIUM ENTERPRISES SEGMENT

2018 HIGHLIGHTS

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

c.130,000
CUTOMERS

24.1%
MSME SHARE IN TOTAL LOAN BOOK[2]

92.5%[2]
OFFLOADING RATIO OF MSME

10.8%
MSME SHARE IN TOTAL DEPOSIT PORTFOLIO

78%[3]
NPS

OVERVIEW

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

PROGRESS AGAINST STRATEGIC PRIORITIES IN 2018

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

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

BUSINESS SUPPORT PROGRAMME

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

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

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

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

MAIN ACHIEVEMENTS IN 2018

- We have achieved strong growth: our MSME loan book increasing by 23.4%[1] YoY to GEL 2,497 million, while our deposit portfolio increased by 8.9%[2] YoY, amounting to GEL 1,018 million. The results were mainly driven by the increase in loans disbursed to businesses operating in the following sectors: agriculture, construction, food industry, hospitality and leisure, as well as services. More information about financial performance of MSME segment is provided under section "financial review" on pages 82 to 86.
- We are the leading partner bank for the government programme, "Produce in Georgia" which aims to support agriculture, manufacturing and hospitality industries. Within the programme, borrowers can apply for a subsidy from the government to lower their interest expense during a grace period. Under this programme, in 2018 we disbursed 64 loans for a total amount of GEL 42 million.
- Internet banking remains the most widely used digital channel, accounting for around 71% of all digital transactions. In 2018 we upgraded our award-winning Internet banking for legal entities with new features and an intuitive design to make it much easier to use. We are also proud that the Global Finance magazine named our corporate digital bank "Best in Social Media Marketing and Services" globally in 2018, a global recognition which was added to our multiple regional (CEE) and country awards in a range of digital banking categories.
- We continue to develop our business support programme and in 2018 we launched an innovative B2B platform for businesses (www.businesstool.ge). This platform creates a marketplace which connects businesses and IT service providers with each other and encourages the development of new software relevant for Georgian businesses. Companies can search, compare and choose the most suitable software for their needs including computer programs, mobile applications or web services. On the one hand, the website supports developers in raising awareness of their products, and on the other hand, the platform helps businesses to automate their processes and increase their efficiency.

STRATEGY 2019

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

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

STARTUP SUPPORT PROGRAM - STARTUPERI

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

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

Levan Meskhishvili,
founder of System Jet

SYSTEM JET - INTRODUCING TECH INNOVATIONS FOR GEORGIAN BUSINESSES

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

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

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

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

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

SPACE

2018 HIGHLIGHTS

c.94,000 customers

c.260,000 downloads

4.8 stars of Apple Store

4.6 stars on Google play

OVERVIEW

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

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

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

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

PRODUCT DESCRIPTION AND ITS MAJOR BENEFITS

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

Currently Space is offering the following products and capabilities:

- Remote account opening;
- Consumer loans;
- Money transfers;
- Bill payments;
- Debit cards, it is possible to attach other; bank's cards as well;
- Online Installments for e-commerce.

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

STRATEGY 2019

- We aim to continue enhancing Space with new products and features and actively involving customers in the development process in order to get instant feedback.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SPACE

SUBSIDIARIES

TBC LEASING

TBC Leasing was founded in 2003 by TBC Bank, which currently holds 99.6% interest. This year, TBC leasing celebrated its 15th anniversary and during all these years the company has worked hard to gain its strong expertise and leading market position. As of 31 December 2018, TBC Leasing's market share[1] stood at 72.3% and its portfolio amounted to GEL 206.0 million with approximately 3,600 customers.

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

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

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

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

TBC PAY

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

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

This year, we achieved strong results in relation to our cash management business which we launched at the end of 2017. This service is designed for companies with a large volume of cash operations, allowing customers to deposit money directly to their bank account, which will appear instantly on their electronic statement. During 2018, we attracted several large retailers including Wissol Petroleum Georgia[2], Socar Georgia Petrolium[3], and Gepha[4]. Currently, we operate around 131 such special terminals, and the volume of such transactions amounted to GEL 461.8 million in December 2018 up by around 100% year-on-year. We plan to further expand this business during 2019.

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

1 Based on the internal estimates
2 Wissol Petroleum Georgia is a leading petroleum company in Georgia
3 Socar Georgia Petroleum is a leading petroleum company in Georgia
4 Gepha is the leading pharmacy retailer in Georgia

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

TBC CAPITAL

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

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

To capture this opportunity, TBC Capital has emerged as a player with strong suite of investment banking products and services helping clients to achieve their strategic corporate goals and growth objectives. In 2018, we widened the team, positioning TBC Capital to benefit from increased capital markets activity in Georgia and the region[5]. Our focus in 2019 remains to further broaden the investment banking transaction coverage in Georgia and across the region[5] as well as enhance brokerage and research business units.

More information about TBC Capital can be found in the corporate and investment banking section on pages 28 to 33.

INTERNATIONAL OPERATIONS

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

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

TBC Kredit
TBC Kredit is a non-banking credit organisation that has operated in Azerbaijan since 1999. It mainly focuses on the SME, consumer and mortgage lending sectors. Since 2008 TBC Bank owned 75.0% of TBC Kredit. In August 2018, TBC Bank has purchased the remaining 25.0% from Enclude LTD, becoming 100% shareholder of TBC Kredit.

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

OTHER LOCAL SUBSIDIARIES

The Group also includes the following subsidiaries:

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

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

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

BG provides asset management service to TBC Bank.

	Breakdown of total assets	Breakdown of net income
The Bank	97.7%	93.7%
International operations	0.2%	0.4%
Other local operations	2.1%	5.9%

5 Region in this context comprises Armenia, Azerbaijan and Georgia

Risk management is a critical pillar of the Group's strategy. It is essential to identify emerging risks and uncertainties that could adversely impact on the Group's performance, financial condition and prospects. This section analyses the principal risks and uncertainties the Group faces. However, we cannot exclude the possibility of the Group's performance being affected by yet unknown risks and uncertainties other than those listed below. More details regarding risk management practices can be found on pages 51 to 63.

The Supervisory Board has undertaken a robust assessment of the principal risks facing the Group and long-term viability of the Group's operations, in order to determine whether to adopt the going concern basis of accounting. Based on the review and analysis the Supervisory Board confirmed that they have a reasonable expectation of the Group's viability over the next three years up to 1 January 2022 and that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period from 1 January 2019 to 1 January 2022.

1. PRINCIPAL RISK

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

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

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

Due to high level of dollarization of the Georgia's economy, currency-induced credit risk is a component of credit risk, which relates to risks arising from foreign currencydenominated loans to unhedged borrowers in the Group's portfolio. Credit risk also includes concentration risk, which is the risk related to credit portfolio quality deterioration due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries. Loses may be further aggravated by unfavorable macroeconomic conditions. These risks are described as a separate principal risks in more details.

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

The Group uses a robust monitoring system to react promptly to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as encompassing individual credit exposures, overall portfolio performance and external trends that may impact on the portfolio's risk profile. Additionally, The Group uses a comprehensive portfolio supervision system to identify weakened credit exposures and promptly take early remedial actions when necessary.

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

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

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

2. PRINCIPAL RISK

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

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

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

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

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

Risk mitigation
Particular attention is paid to currency-induced credit risk due to the high share of loans denominated in foreign currencies in the portfolio. The vulnerability to the exchange rate depreciation is monitored in order to promptly implement an action plan, as and when needed. The ability to withstand certain exchange rate depreciation is incorporated into the credit underwriting standards, which also include significant currency devaluation buffers for unhedged borrowers. In addition, the Group holds significant capital against currency-induced credit risk. Given the experience and knowledge built throughout the recent currency volatility, the Group is in a good position to promptly mitigate exchange rate depreciation risks.

In January 2019, the Government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000 under which loans are required to be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantely more conservative PTI and LTV thresholds for unhedged retail borrowers further limiting the exposure to currency induced credit risk.

3. PRINCIPAL RISK

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

A slowdown of economic growth in Georgia would have an adverse impact on the repayment capacity of the borrowers, restraining their future investment and expansion plans. These occurrences would be reflected in the Group's portfolio quality and profitability and would also impede the portfolio growth rates. Negative macroeconomic developments could compromise the Group's performance through various parameters, such as exchange rate depreciation, a spike in interest rates, rising unemployment, decrease in household disposable income, falling property values, worsening loan collateralisation, or falling debt service capabilities of companies as a result of decreasing sales.

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

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

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

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

Overall, from a macro perspective there were no signs of building up of system wide risks in 2018. At the same time, Georgia remains vulnerable to external and to some extent internal shocks, which could have adverse impact on the Georgian economy resulting in lower growth or, in some severe circumstances, a contraction of the economy. These negative developments could also have a negative impact on the GEL exchange rate.

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

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

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

4. PRINCIPAL RISK

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

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

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

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

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

Risk mitigation
The Group undertakes stress-testing and sensitivity analysis to quantify extra capital consumption under different scenarios. Such analyses indicate that the Group holds sufficient capital to meet the minimum regulatory requirements.

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

5. PRINCIPAL RISK

The Group is exposed to regulatory and enforcement action risk.

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

Risk description

The Bank is regulated by the NBG, who sets lending limits and other economic ratios (including, inter alia, lending, liquidity and investment ratios) in addition to mandatory capital adequacy ratios. During 2018, the NBG introduced several regulatory changes concerning the responsible lending standards.

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

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

The Group's operations remain in full compliance with all relevant legislation and regulations. The Group is also subject to financial covenants in its debt agreements. For more information, see page 211 in the Group's Audited Financial Statements.

Risk mitigation

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

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

The Group's RECC is responsible for regulatory compliance at the Supervisory Board level.

In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation. There was also an extensive dialogue with the regulator regarding the new regulation on responsible lending.

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

Although decisions made by regulators are beyond the Group's control, significant regulatory changes are usually preceded by a consultation period that allows all lending institutions to provide feedback and adjust their business practice.

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

6. PRINCIPAL RISK

The Group is exposed to concentration risk.

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

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

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

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

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

Risk mitigation
The Group constantly checks the concentrations of its exposure to single counterparties, as well as sectors and common risk drivers, and it introduces limits for risk mitigation.

As part of its risk appetite framework, the Group limits both single-name and sector concentrations. Any considerable change in the economic or political environment, in Georgia as well as its neighbouring countries, will trigger the Group's review of the risk appetite criteria to mitigate emerging risk concentrations. Stringent monitoring tools are in place to ensure compliance with the established limits. In addition, the Bank has dedicated restructuring teams to manage borrowers with financial difficulties. When it is deemed necessary, clients are transferred to such teams for a more efficient handling and, ultimately, to limit resulting credit risk losses.

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

7. PRINCIPAL RISK

Liquidity risk is inherent in the Group's operations.

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

Risk description
Throughout 2018, the Group was in compliance with the risk appetite limits, as well as the minimum liquidity requirements set by the NBG, which introduced a liquidity coverage ratio in 2017. This is in addition to the Basel III guidelines, under which a conservative approach was applied to the weighting of mandatory reserves and to the deposit withdrawal rates, depending on the concentration of client groups. As of 31 December 2018, the net loan to deposits plus international financial institution funding ratio stood at 89.1%, the liquidity coverage ratio at 113.9%, and the net stable funding ratio at 126.9%. These figures are all comfortably above the NBG's minimum requirements or guidance for such ratios.

Risk mitigation
To mitigate this risk, the Group holds a solid liquidity position and performs an outflow scenario analysis for both normal and stress circumstances to make sure that it has adequate liquid assets and cash inflows. The Group maintains a diversified funding structure to manage respective liquidity risk. The Supervisory Board believes there is adequate liquidity to withstand significant withdrawals of customer deposits, but the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse impact on the Group's business, financial condition, and results of operations and/or prospects. As part of its liquidity risk management framework, the Group has a liquidity contingency plan in place outlining the risk indicators for different stress scenarios and respective action plans. Liquidity risk position and compliance with internal limits is closely monitored by the Assets and Liabilities Management Committee (ALCO).

8. PRINCIPAL RISK

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

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

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

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

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

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

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

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

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

9. PRINCIPAL RISK

The threat posed by cyber-attacks has increased in recent years and it continues to grow.

The risk of potential cyber-attacks, which have become more sophisticated, may lead to significant security breaches. Such risks change rapidly and require continued focus and investment.

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

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

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

10. PRINCIPAL RISK

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

Risk description
External fraud events may arise from the actions of third parties against the Group and, most frequently, this involved events related to banking cards and cash. Internal frauds arise from actions committed by the Group's employees and such events happen less frequently.

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

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

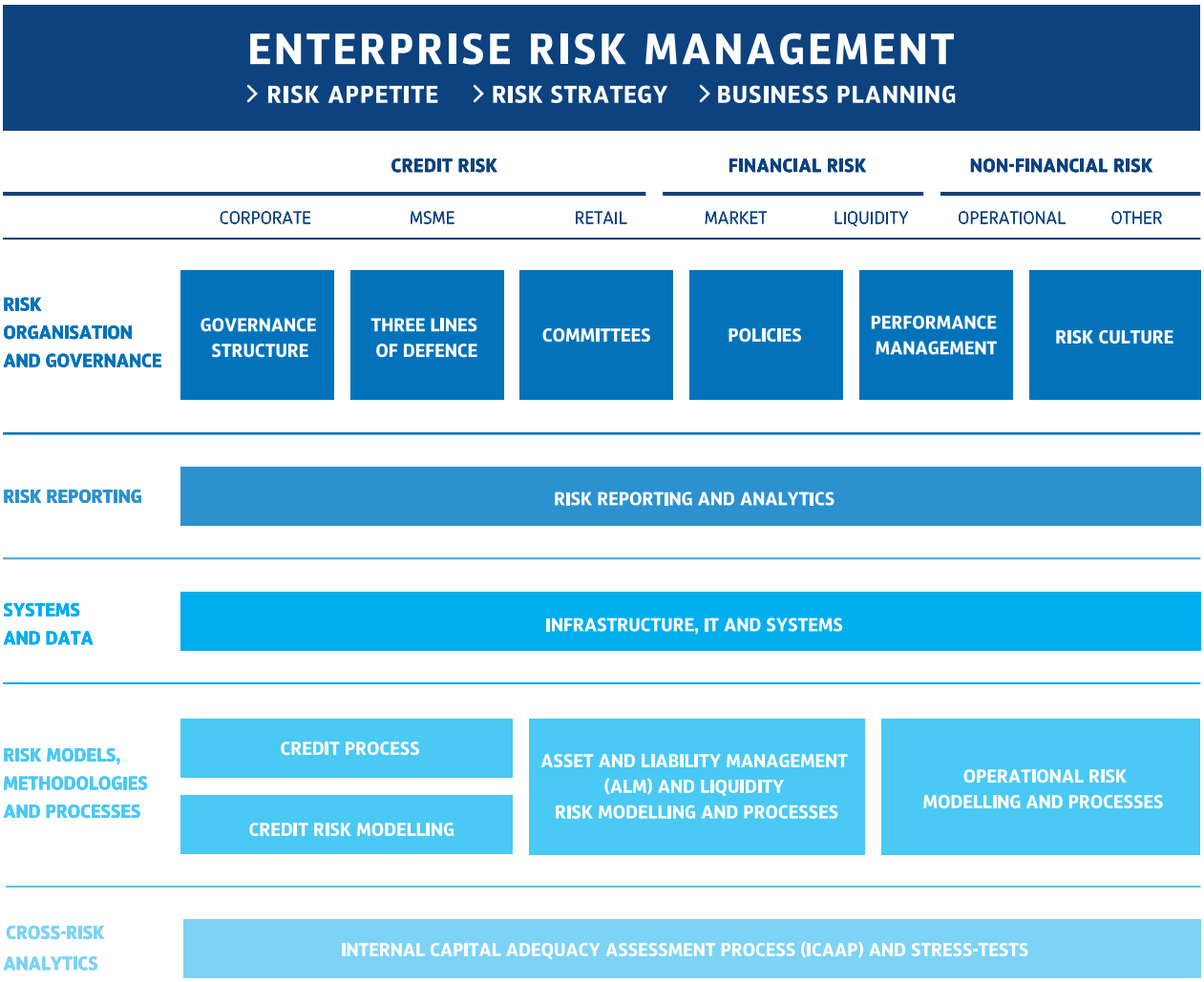
OVERVIEW

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

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

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

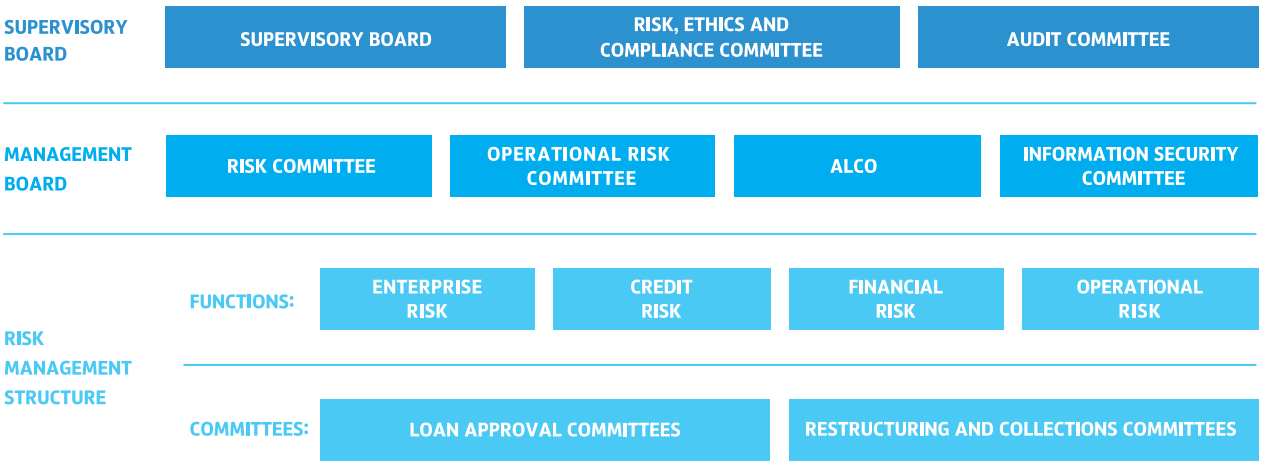
GROUP RISK MANAGEMENT FRAMEWORK



GOVERNANCE

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

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



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

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

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

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

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

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

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

ENTERPRISE RISK MANAGEMENT

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

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

CREDIT RISK MANAGEMENT

As a provider of banking services, the Group is exposed to the risk of loss due to the failure of a customer or counterparty to meet its obligations to settle outstanding amounts in accordance with agreed terms. Credit risk is the most material risk faced by the Group since it is engaged mainly in traditional lending activities with a simple balance sheet. Thus, the Group dedicates significant resources to its management.

Due to the significant reliance on foreign currencies in Georgia's economy, currency-induced credit risk is a significant component of credit risk, which relates to risks arising from foreign currency-denominated loans to unhedged borrowers in the Group's portfolio. Credit risk also includes concentration risk, which is the risk related to credit portfolio quality deterioration due to large exposures provided to single borrowers or groups of connected borrowers, or loan concentration in certain economic industries.

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

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

Credit approval

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

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

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

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

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

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

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

Various management tools and techniques are applied to mitigate the inherent currency-induced credit risk in the loan book, encompassing all phases of credit risk management. In January 2019, the Government authorities continued their efforts to reduce the economy's dependence on foreign currency financing by increasing the cap to GEL 200,000 under which loans are required to be disbursed in local currency. In addition, the NBG, under its responsible lending initiative, which came into force on 1 January 2019, introduced significantly more conservative PTI and LTV thresholds for unhedged retail borrowers further limiting the exposure to currency induced credit risk. The Group applies conservative lending standards to unhedged borrowers with exposures denominated in foreign currencies to ensure that they can withstand a certain amount of forex depreciation without credit quality deterioration. In addition to the measures in place throughout the underwriting process, the Group actively monitors and assesses the quality of loans denominated in foreign currencies through stress-testing exercises and holds sufficient capital buffers against unexpected losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funding and maturity analysis

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

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

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

Market risk

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

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

Foreign exchange risk

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

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

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

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

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

The Group employs an advanced framework for the management of interest rate risk by establishing appropriate limits, monitoring compliance with them and preparing forecasts. Interest rate risk is managed by the financial risk management department and is monitored by the ALCO, which decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The major aspects of interest rate risk management development and the respective reporting are periodically provided to the Management Board, the Supervisory Board and the RECC.

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

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

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

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

NON-FINANCIAL RISK MANAGEMENT

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

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

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

The operational risks discussed above are also applicable where the Group relies on outside suppliers

of services. Considering the fast-changing environment and sophistication of both banking services and possible fraudsters, the importance of constantly improving processes, controls, procedures and systems is heightened to ensure risk prevention and reduce the risk of loss to the Group.

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

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

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

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

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

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

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

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

Compliance

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

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

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

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

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

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

Information Security Steering Committee

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

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

Conduct risk

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

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

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

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

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

1. developing and maintaining policies and procedures to ensure that the respective departments and individual employees comply with the provisions set out by regulatory provisions, best practice and the Code of Conduct, the Code of Ethic and the Group's internal handbook;

2. maintaining a liaison with the compliance department regarding the administration of policies and procedures and the investigation of complaints regarding the conduct of the department, its manager and/or its employees;

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

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

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

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

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

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

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

OUR CUSTOMERS

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

2018 HIGHLIGHTS

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

- In May 2018 we launched a new, innovative product, Space, aimed at young and digitally savvy customers. Space is a fully digital bank developed in partnership with leading industry players including Amazon Cloud, Pulsar AI, Mambu, SalesForce and Corezoid. The application has very modern and intuitive design and performs all banking transactions in real time. (More information can be found on page 40)
- We also started an innovative online platform (www.businesstool.ge) which aims to help businesses to increase their efficiency by automatising their processes with software solutions created by Georgian IT companies. The platform is an online marketplace connecting businesses with IT service providers - it assists the former in finding the right digital solution on the local market and it helps the latter to introduce their products to the business community, ultimately increasing their sales. In addition, we ran a software competition, in partnership with EFSE DF to encourage the creation of IT solutions, which would bring maximum value for businesses. The top three winners were awarded with monetary prizes from EFSE DF to support them in the development of their products.
- We also attracted several special purpose facilities from different international financial institutions to support young entrepreneurs, women-led MSMEs, businesses operating in rural areas, innovative projects, energy efficient and renewable energy products, foreign trade support, as well as mortgage loans for first-time home buyers. The total amount disbursed under these projects amounted to GEL 128 million in 2018.

DIGITAL ENGAGEMENT AND FINANCIAL INCLUSION

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

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

CUSTOMER SATISFACTION

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

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

CUSTOMER PRIVACY AND DATA SECURITY

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

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

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

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

SUPPORTING BUSINESSES DEVELOPMENT

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

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

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

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

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

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

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

PRIORITIES FOR 2019

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

THE ANNUAL LITERARY AWARD SABA

OUR COLLEAGUES

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

2018 HIGHLIGHTS

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

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

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

EQUALITY AND DIVERSITY

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

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

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

GENDER DIVERSITY STATISTICS

Board of directors

	2018	2017	2016
Male	5	9	9
Female	2	0	0

Top management

	2018	2017	2016
Male	7	7	7
Female	1	1	1

Middle management

	2018	2017	2016
Male	187	187	221
Female	113	100	119

All employees

	2018	2017	2016
Male	2,332	2,283	2,195
Female	4,736	4,676	4,097

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

AGE DIVERSITY STATISTICS

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

EMPLOYEE MOTIVATION AND ENGAGEMENT

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

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

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

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

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

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

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

LEARNING AND DEVELOPMENT

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

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

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

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

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

PERFORMANCE ASSESSMENT AND REWARD

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

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

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

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

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

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

ETHICAL STANDARDS AND RESPONSIBLE CONDUCT

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

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

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

The Code of Ethics and Code of Conduct outline ethical principles and standards of professional conduct expected from all employees of the Group and set appropriate relationship norms with colleagues, customers, partners and others stakeholders. TBC Bank's employees are expected to act with professionalism and integrity at all times and to comply with both spirit and intent of all applicable laws and regulations. The employees are

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

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

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

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

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

PRIORITIES FOR 2019

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

OUR COMMUNITY

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

2018 HIGHLIGHTS

During 2018, we implemented a number of remarkable projects:

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

YOUNG GENERATION

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

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

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

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

CULTURE

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

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

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

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

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

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

RUGBY

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

PRIORITIES FOR 2019

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


TBC BANK
canterbury
10 November 2018

ENVIRONMENT

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

LENDING RESPONSIBLY

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

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

EFFICIENT CONSUMPTION OF NATURAL RESOURCES AND RESPONSIBLE WASTE MANAGEMENT

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

- we use energy-efficient LED lightings in our premises;
- we operate an energy-efficient heating and cooling systems in our offices;
- we renewed 73% of our auto park at the bank with hybrid (59%) and electric (14%) cars;
- we prioritise the use of green and energy-efficient products in our everyday activities by incorporating environmental assessment into procurement process; and
- we use green construction standards within the bank.

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

PRIORITIES FOR 2019

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

GREENHOUSE GAS EMISSIONS

The Bank has established a comprehensive internal environmental system to manage its GHG emissions and is committed to reducing its GHG emissions by closely monitoring consumption of fuel, gas and electricity. The Bank also commissioned an independent Health, Safety, Environment (HSE) consulting company, Gergili LLC to verify the measurements of its GHG emissions.

	Total CO2 Emissions (tonnes)		
Data for the FY	**2018**	**2017**	**2016**
Scope 1* Fuel Combustion (heating, vehicles, generators)	2,144	2,054	1,804
Scope 2 (Electricity consumption)	1,214	1,206	1,147
Scope 3 (International flights)	575	321	268
Total emissions (tCO_2)	**3,933**	**3,581**	**3,219**
Total emission per full time employee (CO_2t/pp)	**0.62**	**0.57**	**0.52**

The data is given for the Bank

*Scope 1:
a)1,441 CO2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2018 compared to 1,474 CO2e in 2017 and 1,209 CO2e in 2016
b)617 CO2e emissions in tonnes (from owned vehicles of TBC Bank) in 2018 compared to 478 CO2e in 2017 and 533 CO2e in 2016
c) 86 CO2e emissions in tonnes (from owned generators of TBC Bank) in 2018 compared to 102 CO2e in 2017 and 63 CO2e in 2016

In 2018, total GHG emissions increased by 10% YoY mainly due to increased number of international flights, as well as rise in emissions from vehicles as a result of increase in total number of cars related to the overall growth of business.

CALCULATION METHODOLOGY

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

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

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

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

BORJOMI GORGE FORESTS

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

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

The Financial results of TBC bank are prepared in accordance with IFRS.

FINANCIAL HIGHLIGHTS

Income statement highlights

In thousands of GEL	2018	2017	*Change*
Net interest income	770,558	601,567	28.1%
Net fee and commission income	156,492	124,801	25.4%
Other operating non-interest income	139,039	124,171	12.0%
Credit loss allowance[1]	(165,506)	(106,137)	55.9%
Operating income after credit loss allowance	**900,583**	**744,402**	**21.0%**
Operating expenses	(395,932)	(346,959)	14.1%
Profit before tax	**504,651**	**397,443**	**27.0%**
Income tax expense	(71,351)	(34,662)	NMF
Profit for the period	**433,300**	**362,781**	**19.4%**

NMF – no meaningful figures

Balance sheet and capital highlights

	2018		2017		*Change*
In thousands of GEL	GEL	US$	GEL	US$	
Total assets	15,452,847	5,773,312	12,937,197	4,990,817	19.4%
Gross loans	10,372,582	3,875,283	8,553,217	3,299,598	21.3%
Customer deposits	9,444,746	3,528,636	7,835,323	3,022,654	20.5%
Total equity	2,111,757	788,970	1,848,362	713,047	14.3%
Regulatory tier I capital (Basel III)	1,678,716	627,182	1,437,218	554,439	16.8%
Regulatory total capital (Basel III)	2,351,269	878,454	1,885,287	727,292	24.7%
Regulatory risk weighted assets (Basel III)	13,154,872	4,914,769	10,753,189	4,148,287	22.3%

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

Key ratios

	2018	2017	*Change*
ROE[i]	22.7%	21.4%	1.3 pp
ROA[ii]	3.2%	3.2%	0.0 pp
NIM[iii]	6.8%	6.4%	0.4 pp
Cost to income[iv]	37.1%	40.8%	-3.7 pp
Cost of risk[v]	1.6%	1.2%	0.4 pp
NPL to gross loans[vi]	3.1%	3.3%	-0.2 pp

Ratio definitions are given on page 86

Robust profitability

2018 was another successful year for TBC Bank, which is reflected in our strong financial results. Net profit for the full year 2018 reached GEL 433.3 million, up by 19.4% compared to the last year, while our return on equity stood at 22.7% up by 1.3 pp year-on-year. Our robust profitability was driven by strong income generation, improved cost efficiency and prudent risk management.

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

Net Interest Income

In 2018, net interest income grew by GEL 169.0 million, or 28.1%, YoY to GEL 770.6 million, resulting from a GEL 249.5 million, or 24.1%, higher interest income and a GEL 80.5 million or 18.6% higher interest expense. The increase in interest income was mainly driven by a rise in the gross loan portfolio by GEL 1,819.4 million, or 21.3%, YoY. This effect was further magnified by a 0.2 pp increase in loan yields to 12.3%. The increase in interest expense was mainly driven by the rise in the portfolio of due to credit institutions by GEL 386.8 million, or 14.6%, and a 0.7pp increase in respective effective rate, which stood at 7.2%, mainly related to the rise in Libor rate.

Consequently, NIM was 6.8% in FY 2018, compared to 6.4% in FY 2017.

In thousands of GEL	**2018**	**2017**	***Change***
Interest income	1,283,213	1,033,709	24.1%
Interest expense	(512,655)	(432,142)	18.6%
Net interest income	**770,558**	**601,567**	**28.1%**
NIM	**6.8%**	**6.4%**	**0.4 pp**

Net fee and commission income

In FY 2018, net fee and commission income totalled GEL 156.5 million, up by GEL 31.7 million, or 25.4%, compared to FY 2017. This mainly resulted from an increase in net fee and commission income from card operations of GEL 14.0 million, or 38.7% and an increase in net fee and commission income from settlement transactions of GEL 9.7 million, or 18.6%.

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

In thousands of GEL	**2018**	**2017**	***Change***
Net fee and commission income			
Card operations	50,174	36,165	38.7%
Settlement transactions	62,064	52,329	18.6%
Guarantees issued and letters of credit	23,414	17,983	30.2%
Other	20,840	18,324	13.7%
Total net fee and commission income	**156,492**	**124,801**	**25.4%**

Other Non-Interest Income

Total other non-interest income increased by GEL 14.9 million, or 12.0%, to GEL 139.0 million in FY 2018. This mainly resulted from the rise in net income from foreign currency operations by GEL 15.5 million, or 16.9%, mainly due to an increased number and volume of FX transactions.

In thousands of GEL	**2018**	**2017**	***Change***
Other non-interest income			
Net income from foreign currency operations	107,181	91,694	16.9%
Other operating income	31,858	32,477	-1.9%
Total other non-interest income	**139,039**	**124,171**	**12.0%**

Credit Loss Allowance[1]

In FY 2018, total credit loss allowance increased by GEL 59.4 million to GEL 165.5 million, compared to FY 2017. The main contributor to the growth was credit loss allowance for loans to customers up by GEL 49.9 million. The increase was mainly attributable to the corporate segment following a high recovery of credit loss in FY 2017.

In thousands of GEL	2018	2017	*Change*
Credit Loss Allowance			
Credit loss allowance for loan to customers	(143,723)	(93,823)	53.2%
Credit loss allowance for other financial assets	(21,783)	(12,314)	76.9%
Total credit loss allowance	**(165,506)**	**(106,137)**	**55.9%**
Operating income after credit loss allowance	**900,583**	**744,402**	**21.0%**
Cost of risk	**1.6%**	**1.2%**	**0.4 pp**

Operating Expenses

In FY 2018, total operating expenses expanded by GEL 49.0 million, or 14.1%, YoY. This mainly resulted from an increase in: staff costs by GEL 15.6 million, or 7.9%; depreciation and amortisation by GEL 8.4 million, or 22.8% and administrative expenses by GEL 24.6 million, or 22.0%. The growth across the board resulted from the overall expansion of the business scale, the higher performance and the costs of the mandatory deposit insurance, which was introduced at the end of 2017. Without the mandatory deposit insurance expenses, total operating expenses and administrative & other operating expenses would have increased by 12.6% and 17.3% respectively.

As a result, cost to income ratio was 37.1% in FY 2018, 3.7 pp lower than the 40.8% in FY 2017.

In thousands of GEL	2018	2017	*Change*
Operating expenses			
Staff costs	(212,469)	(196,826)	7.9%
Depreciation and amortization	(45,278)	(36,882)	22.8%
Administrative & other operating expenses	(138,185)	(113,251)	22.0%
Total operating expenses	**(395,932)**	**(346,959)**	**14.1%**
Cost to income	**37.1%**	**40.8%**	**-3.7 pp**

Income Tax

In FY 2018, TBC Bank reversed the one-off deferred tax gain, which was recognised in 2016 due to the recent amendment to the Georgian Tax Code in relation to corporate income tax. The amendment, which came into force on 12 June 2018, postponed the tax relief for re-invested profit from 1 January 2019 to 1 January 2023 for financial institutions. This reversal has resulted in a GEL 17.4 million expense on the profit and loss statement and a GEL 5.1 million reduction in equity in FY 2018.

Liquidity

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

Regulatory Capital

Our capital ratios continued to remain solid with the Bank's Basel III Tier 1 and Total Capital Adequacy Ratios (CAR) standing at 12.8% and 17.9% respectively as of 31 December 2018 compared to the minimum required levels of 11.8% and 16.7%.

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

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

Loan Portfolio
As of 31 December 2018, the gross loan portfolio reached GEL 10,372.6 million, up by 21.3% YoY supported by growth across all business segments. Over the same period, the proportion of gross loans denominated in foreign currency increased by 0.4 pp on a YoY basis and accounted for 60.1% of total loans, while on constant currency basis the proportion of gross loans denominated in foreign currency decreased by 0.2 pp and stood at 59.5%.

During 2018, we transfered certain customers between the segments (the summary of changes is given in annex 1 on page 86). Without the re-segmentation effect[2] retail, corporate and MSME portfolios would have increased by 18.1%, 24.6% and 23.4% respectively.

At the end of 2018, our market share[3] in total loans stood at 38.8% up by 0.6 pp YoY, while our loan market share in legal entities was 37.4% up by 1.4 pp YoY and loan market share in individuals stood at 40.0% down by 0.2 pp YoY.

In thousands of GEL	31-Dec-2018	31-Dec-2017	*Change*
Loans and advances to customers			
Retail	4,698,699	4,233,153	11.0%
Corporate	3,177,289	2,475,392	28.4%
MSME	2,496,594	1,844,672	35.3%
Total loans and advances to customers	**10,372,582**	**8,553,217**	**21.3%**

Loan Portfolio Quality
The total PAR 30 has improved by 0.2 pp YoY driven by improved corporate segment performance. Furthermore, total NPLs stood at 3.1%, down by 0.2pp on YoY basis, mainly driven by the improved performance of the corporate and MSME loan books.

Par 30	31-Dec-2018	31-Dec-2017	*Change*
Retail	2.6%	2.4%	0.2 pp
Corporate	0.4%	1.5%	-1.1 pp
MSME	2.8%	2.5%	0.3 pp
Total loans	**2.0%**	**2.2%**	**-0.2 pp**

Non-performing Loans	31-Dec-2018	31-Dec-2017	*Change*
Retail	2.9%	2.7%	0.2 pp
Corporate	2.7%	3.2%	-0.5 pp
MSME	4.2%	4.6%	-0.4 pp
Total loans	**3.1%**	**3.3%**	**-0.2 pp**

Deposit Portfolio
Total deposit portfolio increased by 19.6% YoY. Without re-segmentation effect[4] mentioned above corporate and MSME deposits would have increased by 31.7% and 8.9% respectively.

By the end of 2018, our market share[3] in deposits amounted to 41.2% up by 1.4 pp YoY and our market share in deposits to legal entities, as well as, to individuals stood at 41.2% up by 3.3 pp and down by 0.1 pp respectively.

In thousands of GEL	31-Dec-2018	31-Dec-2017	*Change*
Customer Accounts			
Retail	5,103,971	4,378,265	16.6%
Corporate	3,323,257	2,429,368	36.8%
MSME	1,017,518	1,027,690	-1.0%
Total Customer Accounts	**9,444,746**	**7,835,323**	**20.5%**

2 In 1Q 2018, GEL 236 million was transferred from retail to MSME portfolio and GEL 66 million was transferred from MSME to corporate loans
3 Market share figures are based on data from the National Bank of Georgia (NBG). The NBG includes interbank loans for calculating market share in loans
4 In 1Q 2018, GEL 78 million was transferred from MSME to corporate deposits portfolio

Ratio Definitions:

i. Return on average total equity (ROE) equals net income attributable to owners divided by the monthly average of total shareholders' equity attributable to the JSC's equity holders for the same period; annualised where applicable.
ii. Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period. Annualised where applicable.
iii. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets; annualised where applicable. Interest-earning assets include investment securities excluding corporate shares, net investment in finance lease, net loans, and amounts due from credit institutions. The latter excludes all items from cash and cash equivalents, excludes EUR mandatory reserves with NBG which currently has negative interest, and includes other earning items from due from banks.
iv. 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).
v. Cost of risk equals credit loss allowance for loans to customers divided by monthly average gross loans and advances to customers; Annualised where applicable.
vi. NPLs to gross loans equals loans with 90 days past due on principal or interest payments, and loans with well-defined weakness, regardless of the existence of any past-due amount or of the number of days past due divided by the gross loan portfolio for the same period.

Annex 1
The segment definitions are as follows (updated in 2018):

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

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

Summary of key changes:

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

CORPORATE GOVERNANCE

Joint Stock Company TBC Bank (the "Bank") is a main subsidiary of London Stock Exchange premium segment listed TBC Bank Group PLC (together the "Group"). The Bank's Corporate Governance is in compliance with the requirements of National Bank of Georgia's Code on Corporate Governance for Commercial Banks, dated 26th of September 2018 (the "Code"). At the same time, The Group complies with the highest standards of Corporate Governance as prescribed by the UK Corporate Governance Code.

The affairs of the Bank are supervised by the Supervisory Board. The Supervisory Board comprises with 4 members (namely, Nikoloz Enukidze (SID), Nicholas Haag, Maria Louisa Cicognani and Tsira Kemularia) all of which are considered independent. Further to the Company's announcement made on the 21s February 2019, Mamuka Khazaradze and Badri Japaridze have submitted letters of resignation on 2 April 2019 and stepped down from the Supervisory Board of the Bank. They will continue to serve as Chairman and Deputy-Chairman of the Board of Directors of TBC Bank Group PLC (the "board of Directors"). The process of recruiting and selecting two new members of the Supervisory Board of TBC Bank is underway and appointments will be made in due course.

The Supervisory Board has four Committees: (i) the Audit Committee; (ii) the Remuneration Committee; (iii) Corporate Governance and Nomination Committee; and (iv) the Risks, Ethics and Compliance Committee. The mandates of each committee are regulated by the Policies approved by the Supervisory Board which comply with the Code's requirements.

In practice, the Bank has two equivalent supervisory bodies in the Group, represented by the Supervisory Board and the Board of Directors, which are separate but interconnected together with committees. The Board of Directors is the decision-making body in relation to all matters that are significant to the Group. There is a formal schedule of matters reserved for the Board's approval in place to ensure that the Board retains control over key decisions. These include, among other things, approval of the Group's strategy, long-term objectives, risk appetite, the annual operating and capital expenditure budgets, changes to the Group's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts.

The work of the Supervisory Board, the Board of Directors and their respective committees is carefully balanced, dividing functions according to whether they are supervising the topics that impact the Group or solely the Bank.

MAMUKA KHAZARADZE

Chairman
Stepped down from the Supervisory Board on 2 April 2019

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

BADRI JAPARIDZE

Deputy Chairman
Stepped down from the Supervisory Board on 2 April 2019

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

NIKOLOZ ENUKIDZE

Senior Independent Non-Executive Director

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

NICHOLAS HAAG

Independent Non-Executive Director

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

ERIC RAJENDRA

Independent Non-Executive Director

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

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

MARIA LUISA CICOGNANI

Independent Non-Executive Director

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

TSIRA KEMULARIA

Independent Non-Executive Director

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

VAKHTANG BUTSKHRIKIDZE

CEO

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

GIORGI SHAGIDZE

Deputy CEO, CFO

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

PAATA GADZADZE

First Deputy CEO

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

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

GEORGE TKHELIDZE

Deputy CEO, Corporate and Investment Banking

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

DAVID CHKONIA

Deputy CEO, Chief Risk Officer

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

TORNIKE GOGICHAISHVILI

Deputy CEO, Chief Operating Officer

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

NINO MASURASHVILI

Deputy CEO, Retail Banking

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

NIKOLOZ KURDIANI

Deputy CEO, MSME Banking

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS AND MANAGEMENT OF TBC BANK JSC

Our opinion
In our opinion, the consolidated and separate financial statements (the 'financial statements') present fairly, in all material respects, the consolidated and separate financial position of TBC Bank JSC (the 'Bank') and its subsidiaries (together - the 'Group') as at 31 December 2018, 31 December 2017 and 31 December 2016 and its consolidated and separate financial performance and its consolidated and separate cash flows for the years then ended in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing.

What we have audited
The financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2018, 31 December 2017 and 31 December 2016;
- the consolidated and separate statements of profit or loss and other comprehensive income for the years then ended;
- the consolidated and separate statements of changes in equity for the years then ended;
- the consolidated and separate statements of cash flows for the years then ended; and
- the notes to the financial statements, which include summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence
We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information
Management is responsible for the other information. Other information comprises Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the Management Report.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In addition, we are required by the Law of Georgia on Accounting, Reporting and Auditing to express an opinion whether certain parts of the Management Report comply with respective regulatory normative acts and to consider whether the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing.

If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Based on the work performed in the course of our audit, in our opinion, in all material respects:
- the information given in the Management Report for the financial years for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report includes the information required by the Law of Georgia on Accounting, Reporting and Auditing and complies with respective regulatory normative acts.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Law of Georgia on Accounting, Reporting and Auditing, and for such internal control as management determines is necessary to enable the preparation of financial

statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Georgia LLC

For and on behalf of PricewaterhouseCoopers Georgia LLC (Reg.# SARAS-F-775813)

Lasha Janelidze (Reg.#SARAS-A-562091)
25 April 2019
Tbilisi, Georgia

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2018**	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents	6	**1,164,403**	1,428,771	944,767
Due from other banks	7	**37,384**	37,789	23,824
Mandatory cash balances with the National Bank of Georgia	8	**1,422,809**	1,033,818	990,642
Loans and advances to customers	9	**10,038,452**	8,325,353	7,133,702
Investment securities measured at fair value through other comprehensive income	10	**1,005,239**	-	-
Investment securities available for sale	10	**-**	657,938	430,703
Bonds carried at amortised cost	11	**653,703**	449,538	372,956
Investments in finance leases	13	**203,802**	143,836	95,031
Investment properties	16	**84,296**	79,232	95,615
Current income tax prepayment		**2,159**	19,084	7,429
Deferred income tax asset	33	**1,992**	2,605	3,265
Other financial assets	12	**154,259**	134,135	91,895
Other assets	14	**177,923**	147,792	170,756
Premises and equipment	15	**366,071**	366,065	313,584
Intangible assets	15	**108,505**	83,072	60,698
Goodwill	17	**29,459**	26,892	26,892
Investments in Associates		**2,432**	1,278	-
TOTAL ASSETS		**15,452,888**	12,937,198	10,761,759
LIABILITIES				
Due to credit institutions	18	**3,031,505**	2,644,714	2,199,976
Customer accounts	19	**9,444,746**	7,835,323	6,461,582
Other financial liabilities	22	**78,205**	79,774	50,153
Current income tax liability		**63**	447	2,579
Debt securities in issue	20	**13,343**	20,695	23,508
Deferred income tax liability	33	**22,237**	602	5,646
Provisions for liabilities and charges	21	**13,817**	10,306	15,294
Other liabilities	23	**86,296**	70,187	62,851
Subordinated debt	24	**650,919**	426,788	368,381
TOTAL LIABILITIES		**13,341,131**	11,088,836	9,189,970
EQUITY				
Share capital	25	**21,014**	21,014	20,617
Share premium	25	**521,190**	521,190	504,161
Retained earnings		**1,543,581**	1,244,206	960,060
Share based payment reserve	26	**(33,591)**	(7,272)	23,327
Revaluation reserve for premises		**57,153**	70,038	70,460
Fair value reserve		**8,775**	-	-
Revaluation reserve for available-for-sale securities		**-**	1,809	(3,681)
Cumulative currency translation reserve		**(6,933)**	(7,358)	(7,538)
Net assets attributable to owners		**2,111,189**	1,843,627	1,567,406
Non-controlling interest	36	**568**	4,735	4,383
TOTAL EQUITY		**2,111,757**	1,848,362	1,571,789
TOTAL LIABILITIES AND EQUITY		**15,452,888**	12,937,198	10,761,759

The financial statements on pages 100 to 227 were approved by the Supervisory Board on 25 April 2019 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 108 to 227 form an integral part of these financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2018**	31 December 2017	31 December 2016
ASSETS				
Cash and cash equivalents		**1,155,388**	1,417,384	861,001
Due from other banks		**28,930**	32,519	26,583
Mandatory cash balances with the National Bank of Georgia		**1,422,809**	1,033,818	859,508
Loans and advances to customers	9	**10,079,844**	8,347,548	5,691,868
Investment securities measured at fair value through other comprehensive income		**1,004,235**	-	-
Investment securities available for sale		**-**	656,934	279,195
Bonds carried at amortised cost		**653,893**	449,722	373,144
Investment properties		**83,422**	78,349	66,355
Current income tax prepayment		**1,166**	17,509	6,597
Other financial assets	12	**121,353**	110,409	102,007
Other assets		**144,437**	135,496	156,218
Premises and equipment	15	**335,286**	343,988	236,001
Intangible assets	15	**104,066**	78,995	52,305
Goodwill		**27,502**	24,935	769
Investments in Subsidiaries and Associates		**26,350**	32,449	382,355
TOTAL ASSETS		**15,188,681**	12,760,055	9,093,906
LIABILITIES				
Due to credit institutions		**2,859,090**	2,515,633	1,389,020
Customer accounts		**9,481,716**	7,883,369	5,666,661
Other financial liabilities	22	**45,347**	35,513	21,351
Deferred income tax liability	33	**22,237**	602	1,715
Provisions for liabilities and charges	21	**13,817**	10,306	13,797
Other liabilities		**82,258**	66,509	57,103
Subordinated debt		**623,863**	424,175	368,381
TOTAL LIABILITIES		**13,128,328**	10,936,107	7,518,028
EQUITY				
Share capital		**21,014**	21,014	20,617
Share premium		**521,190**	521,190	504,161
Retained earnings		**1,485,812**	1,217,169	957,316
Share based payment reserve		**(33,591)**	(7,272)	23,327
Revaluation reserve for premises		**57,153**	70,038	70,038
Fair value reserve		**8,775**	-	-
Revaluation reserve for available-for-sale securities		**-**	1,809	419
TOTAL EQUITY		**2,060,353**	1,823,948	1,575,878
TOTAL LIABILITIES AND EQUITY		**15,188,681**	12,760,055	9,093,906

The financial statements on pages 100 to 227 were approved by the Supervisory Board on 25 April 2019 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 108 to 227 form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	2018	2017	2016
Interest income	28	**1,283,213**	1,033,709	766,410
Interest expense	28	**(512,655)**	(432,142)	(277,122)
Net interest income		**770,558**	601,567	489,288
Fee and commission income	29	**234,626**	192,752	142,802
Fee and commission expense	29	**(78,134)**	(67,951)	(52,110)
Net fee and commission income		**156,492**	124,801	90,692
Net gains from trading in foreign currencies		**91,678**	87,099	70,159
Net gains/(losses) from foreign exchange translation		**15,503**	4,595	(2,528)
Net losses from derivative financial instruments		**(204)**	(36)	(206)
Net gains from disposal of Investment Securities measured at fair value through other comprehensive income		**2**	-	-
Net gains from disposal of available for sale investment securities		**-**	93	9,293
Other operating income	30	**30,906**	31,511	23,214
Share of profit of associates		**1,154**	909	-
Other operating non-interest income		**139,039**	124,171	99,932
Credit loss allowance for loan to customers	9	**(143,723)**	(93,823)	(49,202)
Credit loss allowance for investments in finance lease	13	**(1,765)**	(492)	(558)
Credit loss allowance for performance guaranties and credit related commitments	21	**(3,486)**	390	(771)
Credit loss allowance for other financial assets	12	**(16,446)**	(12,212)	(2,569)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		**(86)**	-	-
Impairment of investment securities available for sale		**-**	-	(11)
Operating income after credit impairment losses		**900,583**	744,402	626,801
Staff costs	31	**(212,469)**	(196,826)	(171,304)
Depreciation and amortisation	15,16	**(45,278)**	(36,882)	(27,980)
(Provision for)/recovery of provision for liabilities and charges	21	**(4,000)**	2,495	(2,210)
Administrative and other operating expenses	32	**(134,185)**	(115,746)	(108,201)
Operating expenses		**(395,932)**	(346,959)	(309,695)
Profit before tax		**504,651**	397,443	317,106
Income tax expense	33	**(71,351)**	(34,662)	(17,421)
Profit for the year		**433,300**	362,781	299,685
Other comprehensive income (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve	10	**6,966**	-	-
Revaluation of available-for-sale investments	10	**-**	5,489	522
Gains less losses recycled to profit or loss upon disposal		**-**	-	(11,611)
Exchange differences on translation to presentation currency		**425**	181	(948)
Income tax recorded directly in other comprehensive income		**-**	-	1,649
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment		**10,749**	-	-
Income tax recorded directly in other comprehensive income	33	**(2,442)**	(422)	10,928
Other comprehensive income for the year		**15,698**	5,248	540
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**448,998**	368,029	300,225
Profit is attributable to:				
- Shareholders of TBCG		**433,051**	362,429	302,491
– Non-controlling interest		**249**	352	(2,806)
Profit for the year		**433,300**	362,781	299,685
Total comprehensive income is attributable to:				
- Shareholders of TBCG		**448,749**	367,677	303,031
– Non-controlling interest		**249**	352	(2,806)
Total comprehensive income for the year		**448,998**	368,029	300,225

The notes set out on pages 108 to 227 form an integral part of these financial statements.

SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

In thousands of GEL	Note	2018	2017	2016
Interest income		**1,244,451**	947,126	701,276
Interest expense		**(502,331)**	(401,955)	(255,633)
Net interest income		**742,120**	545,171	445,643
Fee and commission income	29	**206,555**	163,504	120,497
Fee and commission expense	29	**(88,769)**	(71,935)	(54,650)
Net fee and commission income		**117,786**	91,569	65,847
Net gains from trading in foreign currencies		**91,723**	81,625	66,221
Net gains/(losses) from foreign exchange translation		**15,706**	4,489	(6,802)
Net losses from derivative financial instruments		**(204)**	(36)	(206)
Net gains from disposal of Investment Securities measured at fair value through other comprehensive income		**2**	-	-
Net gains from disposal of available for sale investment securities		**-**	93	8,795
Other operating income		**22,847**	20,539	40,966
Share of profit of associates		**1,092**	835	-
Other operating non-interest income		**131,166**	107,545	108,974
Credit loss allowance for loan to customers	9	**(148,443)**	(82,841)	(20,674)
Credit loss allowance for investments in finance lease		**-**	-	-
Credit loss allowance for performance guaranties and credit related commitments		**(3,486)**	1,285	(1,217)
Credit loss allowance for other financial assets	12	**(12,521)**	(9,297)	(1,090)
Credit loss allowance for financial assets measured at fair value through other comprehensive income		**(86)**	-	-
Impairment of investment securities available for sale		**-**	-	(11)
Operating income after credit impairment losses		**826,536**	653,432	597,472
Staff costs	31	**(194,016)**	(173,119)	(149,559)
Depreciation and amortisation		**(39,969)**	(31,344)	(23,919)
(Provision for)/recovery of provision for liabilities and charges		**(4,000)**	2,495	(2,210)
Administrative and other operating expenses	32	**(112,460)**	(93,792)	(87,643)
Operating expenses		**(350,445)**	(295,760)	(263,331)
Profit before tax		**476,091**	357,672	334,141
Income tax expense		**(70,034)**	(31,116)	(17,590)
Profit for the year		**406,057**	326,556	316,551
Other comprehensive income (OCI):				
Items that may be reclassified subsequently to profit or loss:				
Movement in fair value reserve		**6,966**	-	-
Revaluation of available-for-sale investments		**-**	6,569	2,112
Gains less losses recycled to profit or loss upon disposal		**-**	-	(8,853)
Income tax recorded directly in other comprehensive income		**-**	-	1,401
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment		**10,749**	-	-
Income tax recorded directly in other comprehensive income		**(2,443)**	-	10,506
Other comprehensive income for the year		**15,272**	6,569	5,166
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**421,329**	333,125	321,717

The notes set out on pages 108 to 227 form an integral part of these financial statements.

CONSOLIDATED STATEMENT 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	Fair value reserve[1]	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 1 January 2016		19,587	407,474	12,755	59,532	5,759	-	(6,590)	712,743	1,211,260	7,189	1,218,449
Profit for the year		-	-	-	-	-	-	-	302,491	302,491	(2,806)	299,685
Other comprehensive income		-	-	-	10,928	(9,440)	-	(948)	-	540	-	540
Total comprehensive income for 2016		**-**	**-**	**-**	**10,928**	**(9,440)**	**-**	**(948)**	**302,491**	**303,031**	**(2,806)**	**300,225**
Share issue		1,031	98,969	-	-	-	-	-	-	100,000	-	100,000
Share based payment	26	-	-	11,783	-	-	-	-	-	11,783	-	11,783
Increase in share capital from SBP		36	1,175	(1,211)	-	-	-	-	-	-	-	-
Shares repurchased and cancelled		(37)	(3,457)	-	-	-	-	-	-	(3,494)	-	(3,494)
Dividends declared		-	-	-	-	-	-	-	(55,174)	(55,174)	-	(55,174)
Balance as of 31 December 2016		20,617	504,161	23,327	70,460	(3,681)	-	(7,538)	960,060	1,567,406	4,383	1,571,789
Profit for the year		-	-	-	-	-	-	-	362,429	362,429	352	362,781
Other comprehensive income		-	-	-	(422)	5,490	-	180	-	5,248	-	5,248
Total comprehensive income for 2017		**-**	**-**	**-**	**(422)**	**5,490**	**-**	**180**	**362,429**	**367,677**	**352**	**368,029**
Share issue		-	29	-	-	-	-	-	-	29	-	29
Elimination of unvested share effect		397	17,000	(17,397)	-	-	-	-	-	-	-	-
Share based payment	26	-	-	10,543	-	-	-	-	-	10,543	-	10,543
Share based payment recharge by parent company		-	-	(23,745)	-	-	-	-	-	(23,745)	-	(23,745)
Dividends declared		-	-	-	-	-	-	-	(78,283)	(78,283)	-	(78,283)
Balance as of 31 December 2017		21,014	521,190	(7,272)	70,038	1,809	-	(7,358)	1,244,206	1,843,627	4,735	1,848,362
Impact of adopting IFRS 9 as at 1 January 2018		-	-	-	-	(1,809)	1,809	-	(63,658)	(63,658)	-	(63,658)
Balance as at 1 January 2018		21,014	521,190	(7,272)	70,038	-	1,809	(7,358)	1,180,548	1,779,969	4,735	1,784,704
Profit for the year		-	-	-	-	-	-	-	433,051	433,051	249	433,300
Other comprehensive income		-	-	-	8,307	-	6,966	425	-	15,698	-	15,698
Total comprehensive income for 2018		**-**	**-**	**-**	**8,307**	**-**	**6,966**	**425**	**433,051**	**448,749**	**249**	**448,998**
Purchase of additional interest from NCI		-	-	-	-	-	-	-	4,416	4,416	(4,416)	-
Share based payment	26	-	-	11,691	-	-	-	-	-	11,691	-	11,691
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	-	-	(38,010)	-	(38,010)
Dividends declared		-	-	-	-	-	-	-	(95,626)	(95,626)	-	(95,626)
Transfer of revaluation surplus to RE		-	-	-	(21,192)	-	-	-	21,192	-	-	-
Balance as of 31 December 2018		21,014	521,190	(33,591)	57,153	-	8,775	(6,933)	1,543,581	2,111,189	568	2,111,757

The notes set out on pages 108 to 227 form an integral part of these financial statements.

SEPARATE STATEMENTS OF CHANGES IN EQUITY

In thousands of GEL	Note	Share capital	Share premium	Share based payments reserve	Revaluation reserve for premises	Revaluation reserve for available for sale securities	Fair value reserve[1]	Retained earnings	Total equity
		Net assets Attributable to owners							
Balance as of 1 January 2016		19,587	407,474	12,755	59,532	5,759	-	695,325	1,200,432
Profit for the year		-	-	-	-	-	-	316,551	316,551
Other comprehensive income		-	-	-	10,506	(5,340)	-	-	5,166
Total comprehensive income for 2016		**-**	**-**	**-**	**10,506**	**(5,340)**	**-**	**316,551**	**321,717**
Share issue		1,031	98,969	-	-	-	-	-	100,000
Share based payment	26	-	-	11,783	-	-	-	-	11,783
Increase in share capital from SBP		36	1,175	(1,211)	-	-	-	-	-
Shares repurchased and cancelled		(37)	(3,457)	-	-	-	-	-	(3,494)
Dividends declared		-	-	-	-	-	-	(54,560)	(54,560)
Balance as of 31 December 2016		20,617	504,161	23,327	70,038	419	-	957,316	1,575,878
Profit for the year		-	-	-	-	-	-	326,556	326,556
Other comprehensive income		-	-	-	-	6,569	-	-	6,569
Total comprehensive income for 2017		**-**	**-**	**-**	**-**	**6,569**	**-**	**326,556**	**333,125**
Business combination		-	-	-	-	(5,179)	-	11,581	6,402
Share issue		0.3	29	-	-	-	-	-	29
Elimination of unvested share effect		397	17,000	(17,397)	-	-	-	-	-
Share based payment	26	-	-	10,543	-	-	-	-	10,543
Share based payment recharge by parent company		-	-	(23,745)	-	-	-	-	(23,745)
Dividends declared		-	-	-	-	-	-	(78,284)	(78,284)
Balance as of 31 December 2017		21,014	521,190	(7,272)	70,038	1,809	-	1,217,169	1,823,948
Impact of adopting IFRS 9 as at 1 January 2018		-	-	-	-	(1,809)	1,809	(62,979)	(62,979)
Balance as at 1 January 2018		21,014	521,190	(7,272)	70,038	-	1,809	1,154,190	1,760,969
Profit for the year		-	-	-	-	-	-	406,057	406,057
Other comprehensive income		-	-	-	8,306	-	6,966	-	15,272
Total comprehensive income for 2018		**-**	**-**	**-**	**8,306**	**-**	**6,966**	**406,057**	**421,329**
Transfer of revaluation surplus to RE		-	-	-	(21,191)	-	-	21,191	-
Share based payment	26	-	-	11,691	-	-	-	-	11,691
Share based payment recharge by parent company		-	-	(38,010)	-	-	-	-	(38,010)
Dividends declared		-	-	-	-	-	-	(95,626)	(95,626)
Balance as of 31 December 2018		21,014	521,190	(33,591)	57,153	-	8,775	1,485,812	2,060,353

The notes set out on pages 108 to 227 form an integral part of these financial statements.

1 On 1 January 2018 the Group adopted IFRS 9 which replaced IAS 39. Upon adoption of IFRS 9 the balance of available for sale reserve was replaced by the fair value reserve in accordance with the new requirements.

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of GEL	Note	2018	2017	2016
Cash flows from (used in) operating activities				
Interest received		**1,224,200**	1,000,042	735,704
Interest paid		**(504,138)**	(425,454)	(274,955)
Fees and commissions received		**235,508**	195,285	144,247
Fees and commissions paid		**(78,123)**	(68,024)	(52,154)
Income received from trading in foreign currencies		**91,678**	87,099	70,411
Other operating income received		**15,655**	8,980	8,411
Staff costs paid		**(195,160)**	(182,100)	(147,764)
Administrative and other operating expenses paid		**(122,467)**	(109,663)	(103,182)
Income tax paid		**(34,918)**	(53,916)	(34,279)
Cash flows from operating activities before changes in operating assets and liabilities		**632,235**	452,249	346,439
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(336,232)**	(97,430)	(449,150)
Loans and advances to customers		**(1,718,446)**	(1,330,105)	(1,221,499)
Investment in finance lease		**(54,784)**	(49,297)	(11,687)
Other financial assets		**(32,481)**	(38,610)	(22,855)
Other assets		**(3,866)**	74,213	(741)
Net change in operating liabilities				
Due to other banks		**69,755**	(228,486)	268,078
Customer accounts		**1,442,126**	1,339,814	1,156,780
Other financial liabilities		**(7,153)**	23,541	5,903
Other liabilities and provision for liabilities and charges		**3,602**	3,617	332
Net cash (used in)/from operating activities		**(5,244)**	149,506	71,600
Cash flows from (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	**(717,630)**	-	-
Acquisition of investment securities available for sale	10	**-**	(560,226)	(143,980)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	**14,781**	-	-
Proceeds from disposal of investment securities available for sale	10	**-**	-	11,868
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	**370,571**	-	-
Proceeds from redemption at maturity of investment securities available for sale	10	**-**	345,748	166,871
Acquisition of subsidiaries, net of cash acquired		**-**	(273)	(200,700)
Cash acquired		**809**	-	-
Acquisition of bonds carried at amortised cost		**(395,717)**	(307,248)	(304,109)
Proceeds from redemption of bonds carried at amortised cost		**200,658**	242,380	314,231
Acquisition of premises, equipment and intangible assets		**(104,960)**	(113,454)	(50,516)
Proceeds from disposal of premises, equipment and intangible assets		**17,933**	1,933	1,273
Proceeds from disposal of investment property		**42,515**	19,082	7,822
Net cash used in investing activities		**(571,040)**	(372,058)	(197,240)
Cash flows from (used in) financing activities				
Proceeds from other borrowed funds		**1,776,489**	1,483,191	905,500
Redemption of other borrowed funds		**(1,539,562)**	(800,333)	(666,156)
Proceeds from subordinated debt		**255,899**	119,859	136,817
Redemption of subordinated debt		**(60,910)**	(59,671)	(90,416)
Proceeds from debt securities in issue		**(7,596)**	-	4,354
Redemption of debt securities in issue		**-**	(2,123)	(4,636)
Dividends paid		**(95,626)**	(78,284)	(54,560)
Dividends received		**-**	-	-
Recharge paid		**(38,010)**	(23,745)	-
Acquisition of non-controlling interest in subsidiary		**-**	-	(3,495)
Issue of ordinary shares		**-**	29	100,000
Net cash flows from financing activities		**290,684**	638,923	327,408
Effect of exchange rate changes on cash and cash equivalents		**21,232**	67,633	22,652
Net (decrease)/increase in cash and cash equivalents		**(264,368)**	484,004	224,420
Cash and cash equivalents at the beginning of the year	6	**1,428,771**	944,767	720,347
Cash and cash equivalents at the end of the year	6	**1,164,403**	1,428,771	944,767

The notes set out on pages 108 to 227 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

In thousands of GEL	Note	2018	2017	2016
Cash flows from (used in) operating activities				
Interest received		**1,186,528**	915,150	682,698
Interest paid		**(494,409)**	(397,197)	(255,950)
Fees and commissions received		**207,663**	166,218	121,965
Fees and commissions paid		**(88,769)**	(71,935)	(54,650)
Income received from trading in foreign currencies		**91,723**	81,625	66,221
Other operating income received		**12,716**	9,904	10,177
Staff costs paid		**(176,966)**	(157,022)	(123,991)
Administrative and other operating expenses paid		**(102,331)**	(88,783)	(83,871)
Income tax paid		**(34,500)**	(49,285)	(29,200)
Cash flows from operating activities before changes in operating assets and liabilities		**601,655**	408,675	333,399
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(333,075)**	(107,693)	(327,494)
Loans and advances to customers		**(1,746,945)**	(1,423,237)	(995,430)
Other financial assets		**(24,692)**	(27,026)	(26,540)
Other assets		**19,304**	77,167	(34,167)
Net change in operating liabilities				
Due to other banks		69,755	(61,340)	130,029
Customer accounts		1,431,035	1,493,733	1,089,956
Other financial liabilities		5,370	4,808	(3,236)
Other liabilities and provision for liabilities and charges		**1,858**	919	(551)
Net cash flows from operating activities		**24,265**	366,006	165,966
Cash flows from (used in) investing activities				
Acquisition of investment securities measured at fair value through other comprehensive income	10	**(717,630)**	-	-
Acquisition of investment securities available for sale	10	**-**	(649,893)	(138,965)
Proceeds from disposal of investment securities measured at fair value through other comprehensive income	10	**14,781**	-	-
Proceeds from disposal of investment securities available for sale	10	**-**	-	11,868
Proceeds from redemption at maturity of investment securities measured at fair value through other comprehensive income	10	**370,571**	-	-
Proceeds from redemption at maturity of investment securities available for sale	10	**-**	345,748	163,115
Acquisition of subsidiaries, net of cash acquired		**-**	-	(345,154)
Cash acquired		**809**	(126,163)	-
Acquisition of bonds carried at amortised cost		**(395,717)**	(307,248)	(304,297)
Proceeds from redemption of bonds carried at amortised cost		**200,658**	242,380	314,231
Acquisition of premises, equipment and intangible assets		**(76,631)**	(104,540)	(45,615)
Proceeds from disposal of premises, equipment and intangible assets		**3,902**	550	(159)
Proceeds from disposal of investment property		**42,574**	20,868	6,207
Net cash used in investing activities		**(556,683)**	(578,298)	(338,769)
Cash flows from (used in) financing activities				
Proceeds from other borrowed funds		**1,685,389**	1,405,021	802,883
Redemption of other borrowed funds		**(1,487,189)**	(676,337)	(587,649)
Proceeds from subordinated debt		**211,808**	118,150	136,891
Redemption of subordinated debt		**(40,558)**	(59,671)	(90,416)
Dividends paid		**(95,626)**	(78,284)	(54,560)
Dividends received		**-**	17,125	2,241
Recharge paid		**(38,010)**	(23,745)	-
Acquisition of non-controlling interest in subsidiary		**7,190**	-	(3,495)
Issue of ordinary shares		**-**	29	100,000
Net cash flows from financing activities		**243,004**	702,288	305,895
Effect of exchange rate changes on cash and cash equivalents		**27,418**	66,387	24,101
Net (decrease)/ increase in cash and cash equivalents		**(261,996)**	556,383	157,193
Cash and cash equivalents at the beginning of the year	6	**1,417,384**	861,001	703,808
Cash and cash equivalents at the end of the year	6	**1,155,388**	1,417,384	861,001

The notes set out on pages 108 to 227 form an integral part of these financial statements.

1 INTRODUCTION

Principal activity. JSC TBC Bank (hereafter the "Bank") was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank is a parent of a group of companies incorporated in Georgia and Azerbaijan; their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Bank has been operating since 20 January 1993 under a general banking license issued by the National Bank of the Georgia ("NBG"). The Bank's registered address and place of business is 7 Marjanishvili Street, 0102 Tbilisi, Georgia. The Bank was registered by District Court of Vake and the registration number is 204854595.

The Bank has 146 (2017:154; 2016:120) branches within Georgia. During 2016 the Bank acquired JSC Bank Republic, which had 41 branches as of 31 December 2016 not included in number of branches above.

On 1 June 2016, TBC Bank Group PLC ("TBCG"), a public limited liability company, incorporated in England and Wales on 26 February 2016, launched the Tender Offer (the "Tender Offer") to exchange its entire ordinary share capital for an equivalent number of the Bank's ordinary shares and thus to acquire the entire issued share capital, including those shares represented by Global Depositary Receipts ("GDRs"), of the Bank. Following the successful completion of the Tender Offer on 4 August 2016, as of 31 December 2018 TBCG holds 99.88% (2017: 98.67%; 2016: 98.48%) of the share capital of the Bank, thus representing the Bank's ultimate parent company. TBC Bank Group PLC's registered legal address is Elder House St Georges Business Park, 207 Brooklands Road, Weybridge, Surrey, KT13 0TS. Registered number of TBC Group PLC is 10029943.

As of 31 December 2018, 2017 and 2016, the following shareholders directly owned more than 5% of the total outstanding shares of the Group. Other shareholders individually owned less than 5% of the outstanding shares. As of 31 December 2018, 2017 and 2016 the Group had no ultimate controlling party.

	% of ownership interest held as of 31 December		
Shareholders	**2018**	2017	2016
TBC Bank Group PLC	**99.88%**	98.67%	98.48%
Other*	**0.12%**	1.33%	1.52%
Total	**100.00%**	100.00%	100.00%

* Other includes individual as well as corporate shareholders.

As of 31 December 2018, 2017 and 2016 the shareholder structure by beneficiary ownership interest was as follows:

	% of ownership interest held as of 31 December		
Shareholders	**2018**	2017	2016
Mamuka Khazaradze	**13.54%**	13.87%	14.08%
Badri Japaridze	**6.77%**	6.93%	7.03%
Institutional and retail investors	**66.91%**	65.45%	55.32%
IFIs	**8.18%**	11.29%	19.26%
Other Shareholders	**4.60%**	2.46%	4.31%
Total	**100.00%**	100.00%	100.00%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. The consolidated and separate financial statements (hereafter the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the certain financial assets and liabilities (including derivative instruments) and certain class of premises and equipment which are measured at fair value. The principal accounting policies applied in the preparation of the consolidated and separate financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

New and amended standards and interpretations. In these financial statements, the Group has applied IFRS 9 and IFRS 15, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments. IFRS 9 replaced IAS 39 for annual periods on or after 1 January 2018. The Group applied IFRS 9 using modified retrospective approach that means it has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 and 2016 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 4, transition table.

Changes to classification and measurement. To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognitio
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Group's classification of its financial assets and liabilities is explained in Note 4. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 4.

Changes to the impairment calculation. The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 4. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IFRS 7. To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 36.

Reconciliations from opening to closing ECL allowances are presented in Note 9.

Going Concern. The Board of Directors of TBC Bank Group JSC has prepared these financial statements on a going concern basis. In making this judgement the management considered the Group's financial position, current intentions, profitability of operations and access to financial resources. The management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Subsidiaries and associates. The consolidated financial statements include the following principal subsidiaries:

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Industry
	2018	2017	2016			
United Financial Corporation JSC	**98.67%**	98.67%	98.67%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	**99.61%**	99.61%	99.61%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	**100.00%**	75.00%	75.00%	Baku, Azerbaijan	1999	Non-banking credit institution
Banking System Service Company LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2009	Information services
TBC Pay LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2009	Processing
Real Estate Management Fund JSC	**0.00%**	100.00%	100.00%	Tbilisi, Georgia	2010	Real estate management
TBC Invest LLC	**100.00%**	100.00%	100.00%	Ramat Gan, Israel	2011	PR and marketing
Index LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
BG LLC[3]	**0.00%**	-	-	Tbilisi, Georgia	2018	Real Estate
Bank Republic Group	**-**	-	100.00%	Tbilisi, Georgia	1992	Banking
Ltd Merckhali Pirevli	**-**	-	100.00%	Tbilisi, Georgia	2009	Operating leasing

On 6 May 2017 the Group has completed the legal and operational process of merging JSC Bank Republic with TBC Bank.

The consolidated financial statements include the following associates:

Company Name	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	Industry
	2018	2017	2016			
JSC CreditInfo Georgia	**21.08%**	21.08%	0.00%	Tbilisi, Georgia	2005	Financial intermediation
LLC Online Tickets	**26.00%**	26.00%	0.00%	Tbilisi, Georgia	2015	Computer and Software Services

The country of registration or incorporation is also the principal area of operation of each of the above subsidiaries. On 6 May The Group's corporate structure consists of a number of related undertakings, comprising subsidiaries and associates, which are not consolidated or equity accounted due to immateriality. A full list of these undertakings, the country of incorporation and the ownership of each share class is set out below.[i]

3 The Group has de-facto control over the subsidiary (actual control without legal form of ownership)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Business combinations and Goodwill. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measures the non-controlling interest that represents the current ownership's interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquired entity. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after the management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from the equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investments in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 41.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position. Repayments for loans are accounted for penalties in the first place, then accrued interest and after that principal amount.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy). For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the "hold to collect" business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the "hold to collect" business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. The judgements applied by the Group in performing the SPPI test for its financial assets is as follows:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets – classification and subsequent measurement – cash flow characteristics (continued). The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The Group applied a threshold of 10% to determine whether differences against a benchmark instruments are significantly different. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

The Group identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The instruments that failed the SPPI test are generally measured at FVTPL. The Bank did not have such category of Loans to customers during 2018.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL.

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition:

- Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL").
- Stage 2: If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis ("Lifetime ECL"). If a SICR is no longer observed, instrument will move back to Stage 1. Refer to Note 36 for a description of how the Group determines, on a forward-looking basis, when a SICR has occurred.
- Stage 3: Credit impaired assets are transferred to Stage 3 and allowance for Lifetime ECL is recognized. The Group's definition of credit impaired assets and definition of default is based on the occurrence of one or more loss events, described further in Note 36.

Change in ECL is recognized in statement of profit or loss with a corresponding allowance reported as a decrease in carrying value of the financial asset on the statement of financial position. For financial guarantees and credit commitments, provision for ECL is reported as a liability in Provisions for Liabilities and Charges.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type. The contractual amounts outstanding on loans to customers that have been written off partially or fully during 2018, but are still subject to enforcement activity was principal amount GEL 96 million, accrued interest GEL 18 million and accrued off balance penalty GEL 92 million.

Financial assets – derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa;

Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no schedule is replaced with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes.

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset is not substantially (10% test) different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the NBG are carried at AC and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Otherwise they are carried at FV.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Gross carrying amount and write offs. Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance. The Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The latter includes penalties under the local regulation requirements. The loans are collectively assessed for write off based on overdue days criteria or are individually evaluated, depending on the loan segment and product type. The contractual amounts outstanding on loans to customers that have been written off partially or fully during 2018, but are still subject to enforcement activity was principal amount GEL 96 million, accrued interest GEL 18 million and accrued off balance penalty GEL 92 million.

Financial assets – derecognition and modification. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in interest rate due to market environment changes, change in the currency denomination; consolidation of two or more loans into one new loan; change in counterparty; loan with no schedule is replaced with loan with schedule or vice versa;

Based on below shown internally developed methodology there are certain qualitative triggers which lead to asset derecognition with no further quantitative testing required. These qualitative criteria are included in the list below:

- Change in contract currency;
- Consolidation of two or more loans into one new loan;
- Change in counterparty;
- Loan with no schedule is replaced with loan with schedule or vice versa;
- Change in contractual interest rate due to market environment changes;

The Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. It should be assessed whether change in contractual cash flow is significant (significance defined as 10% change). If the test result is above 10% threshold, loan should be derecognized, whereas if the test is passed and result is below or equal to 10%, financial asset can be assessed as modified.

If the risks and rewards do not change, the modified asset is not substantially (10% test) different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate or, when applicable, the revised effective interest rate and recognises a modification gain or loss in profit or loss. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

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Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss. Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 36 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group to settle overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

Loan commitments. The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as an asset upon transfer of the loss compensation to the guarantee's beneficiary. These fees are recognised within fee and commission income in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Based on classification of securities sold under the sale and repurchase agreements, the Group classifies repurchase receivables into one of the following measurement categories: AC, FVOCI, and FVTPL.

Finance lease receivables (Investment in finance lease). Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. There is a 'three stage' approach which is based on the change in credit quality of financial lease receivables since initial recognition. Immediate loss that is equal to the 12-month ECL is recorded on initial recognition of financial leases that are not credit impaired. In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases. The company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at AC less ECL.

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprises of interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at at AC less ECL. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Due to credit institutions. Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at AC. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Subordinated debt. Subordinated debt can only be paid in the event of a liquidation after the claims of other higher priority creditors have been met and is included in the Bank's "tier 2" capital. Subordinated debt is carried at AC.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at AC. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. This is generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment, except for land, buildings and construction in progress, are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, land, buildings and construction in progress are carried at a revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation surplus is credited to the revaluation reserve for premises and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. In this case the increase is recognized in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognized in other comprehensive income and reduces revaluation reserve for premises and equipment accumulated in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years; and
Leasehold improvements	The term of the underlying lease or if not defined, not more than 7 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property that the Groups owns to earn rental income or for capital appreciation, or both, and that it does not occupy.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. It is amortised on a straight line basis over an expected useful life of 30 to 50 years. In case of any indication that the investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of 2 to 15 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Income taxes. Income taxes are provided in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises of current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected-to-be-paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period that are expected to apply to the extent of time when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by the management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. As part of interest income or expense this method defers all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The group does not have Interest income on debt instruments at FVTPL calculated at nominal interest rate during 2018.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Income and expense recognition (continued). Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVTPL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Fee and commission income. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's performance. Variable fees are recognised only to the extent that management determines that it is highly probable that a significant reversal will not occur.

Foreign currency translation. The Group's presentation currency is the Georgian Lari. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the territories where the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) Components of equity are translated at the historic rate; and
(iv) All resulting exchange differences are recognised in other comprehensive income.

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

Foreign currency translation (continued). Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2018 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.3955 (2017: GBP 1 = GEL 3.5005); USD 1 = 2.6766 (2017: USD 1 = GEL 2.5922); EUR 1 = 3.0701 (2017: EUR 1 = GEL 3.1044).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the Group's employees.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Share based payments. A share-based payment arrangement is an agreement between the entity and another party (including an employee) that entitles the other party to receive cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met. Under the share-based compensation plan the Group receives services from the management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by the reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in the assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled scheme is accounted for under share based payment reserve. Upon meeting vesting conditions, the bank pays recharge amount to the TBC Bank Group PLC and the share based reserve is debited correspondingly. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

Principles applied before 1 January 2018 (comparatives only)

Financial instruments – key measurement terms (comparatives only). Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or the liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity owned by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis in case the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular

counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not solely based on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 41.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments – key measurement terms (comparatives only) (continued). Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of such unquoted equity instruments. Refer to Note 10.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments (comparatives only). Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus the transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or a loss on initial recognition is only recorded if there is a difference between the fair value and the transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame set by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets (comparatives only). The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents (comparatives only). Cash and cash equivalents are items which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the National Bank of Georgia (NBG), excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost. The payments or receipts presented in the statement of cash flows represent the Group's transfers of cash and cash equivalents, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Mandatory cash balances with the National Bank of Georgia (comparatives only). Mandatory cash balances with the NBG are carried at amortised cost and represent mandatory reserve deposits that are not available to finance the Group's day to day operations. Hence they are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Investment securities available for sale (comparatives only). This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in Other Comprehensive Income ("OCI") until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from OCI to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") arising after the initial recognition of investment securities available for sale.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and reclassified from OCI. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss for the year.

Sale and repurchase agreements (comparatives only). Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The lender provides funds to the borrower and receives security as collateral. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Group, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest rate method.

Loans and advances to customers (comparatives only). Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, financial asset is derecognized and the new asset is initially recognised at its fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Bonds carried at amortised cost (comparatives only). Investment securities that the Group intends to hold for an indefinite period and that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices have been classified as available for sale investments in the financial statements for the year ended 31 December 2014. In 2015 the Group has reassessed its intention with regard to some of the securities under this category and has identified certain investments that the Group has both the intention and ability to hold to maturity. Due to the fact that transactions for such securities do not take place with sufficient frequency and volume to provide pricing information on an ongoing basis the securities are not considered to be quoted in an active market and were reclassified to loans and receivables rather than held to maturity investments. These securities are presented in the balance sheet under caption bonds carried at amortised cost.

When an available-for-sale financial asset with fixed maturity is reclassified to loans and receivables, the fair value of the financial asset on that date becomes its new amortised cost. Any previous gain or loss on that asset that has been recognised directly in other comprehensive income is amortised to profit and loss over the investment's remaining life using the effective interest method.

Impairment of financial assets carried at amortised cost (comparatives only). Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that happened after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group classifies its borrowers as significant and non-significant ones for impairment allowance estimation purposes and assesses for impairment individually or collectively. Specific qualitative and quantitative events are outlined for evidence of impairment of individually and collectively assessed borrowers in order to ensure that loss event is identified as early as possible.

If there is evidence that an impairment loss event on significant credit exposures has been incurred, the Bank assesses the borrowers on an individual basis and measures the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the exposure's original effective interest rate for fixed rate loans or current effective interest rate for variable rate loans. The Bank considers two types of sources for recoveries: cash recoveries and/or collateral recovery. For cash recoveries the estimated recoverable amount is equal to the present value of the estimated future cash flows. Collateral recoveries reflect the cash flows that may result from collateral foreclosure. The Bank uses its best estimates to assess future recoveries, applying scenario analysis and taking into account all relevant information available at the reporting date including adverse changes in general macroeconomic environment or the industry the borrower operates in.

If the Group determines that there is no objective evidence that an individually assessed financial asset incurred in impairment whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. For collective assessment purposes exposures are grouped into a homogenous risk pools based on similar credit risk characteristics. Common credit risk characteristics of the group include but are not limited to: type of counterparty (individual vs. business), type of product, past-due status of the exposure, restructuring status and type of collateral.

In order to calculate impairment allowance for collectively assessed loans pools, the Bank estimates the following risk parameters: probability of default, cure rate, recovery rate, survival rate and loss give default, based on historical experience. In case of a change in either the internal or external environment and historical data no longer reflect the current situation, the Bank adjusts risk parameters on the basis of current observable data to reflect the effects of present conditions that did not affect past periods, and to remove the effects of past conditions that do no longer exist.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

The Bank reverses previously recognised impairment loss if, once identified, the amount of the impairment loss decreases and the decrease is related to an objective event. The previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. In order to reverse provisions for individually significant borrowers there should be objective evidence that the borrowers' financial standing has improved or there is improvement in collateral coverage. For collectively assessed loans the Bank applies the notion of "quarantine period" defined as period necessary for an exposure to satisfy performing loans criteria's in order to be reclassified in a performing loans pool.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Impairment losses on loans and advances and finance lease receivables (comparatives only). The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group conclude whether there is, or not, any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. When scheduling future cash flows the management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 11,393 as at 31 December 2017 (2016: GEL 11,251 thousand) and additional charge for impairment of finance lease receivables of GEL 63 thousand as at 31 December 2017 (2016: GEL 57 thousand), respectively.

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 1,454 thousand as at 31 December 2017 (2016: GEL 2,701 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 14 thousand as at 31 December 2017 (2016: GEL 9 thousand), respectively.

Credit related commitments (comparatives only). The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitments, except for those to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees (comparatives only) are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are recorded off-balance sheet at initiation. Fee income is recognized as earned over the lifetime of a respective contract. . At the end of each reporting period, the provision for performance guarantee contracts are measured at the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts. Such amounts are recognised as loans and receivables.

Due to credit institutions (comparatives only). Amount due to credit institutions are recorded when counterparty banks advance money or other assets to the Group. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts (comparatives only). Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt (comparatives only). Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in the Bank's "tier 2" capital.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Debt securities in issue (comparatives only). Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments (comparatives only). Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Finance lease receivables (Investment in finance lease) (comparatives only). Where the Group is a lessor in a lease that substantially transfers all risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the early date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that took place after the initial recognition of investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases (comparatives only). The company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at amortised cost less impairment.

Prepayment for purchase of leasing assets (comparatives only). Prepayment for purchase of leasing assets comprises of interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

ECL measurement. Measurement of ECLs is a significant estimate that involves forecasting future economic conditions, longer the term of forecasts more management judgment is applied and those judgements may be the source of uncertainty. Details of ECL measurement methodology are disclosed in Note 36. The following components have a major impact on credit loss allowance: definition of default, definition of significant increase in credit risk (SICR), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Significant increase in credit risk ("SICR"). The Bank applies both qualitative and quantitative indicators to determination of SICR considering all reasonable and supportable information available without undue cost and effort, on past events, current conditions and future behavioural aspects of particular portfolios. The Bank tries to identify indicators of increase in credit risk of individual instruments prior to delinquency and incorporates significant assumptions in the model in doing so. One of such judgement is determination of thresholds of significant increase in credit risk. 20% decrease in SICR thresholds would increase impairment allowance on loans and advances by GEL 2,056 thousand and would result in a change of the Bank's cost of credit risk ratio by 2 basis points. 10% increase in Stage 2 exposures would increase impairment allowance on loans and advances by GEL 2,723 thousand and would result in a change of the Bank's cost of credit risk ratio by 3 basis points.

Risk parameters: Probability of default (PD) and Loss given default (LGD) parameters are one of the key drivers of expected credit losses. A 10% increase (decrease) in PD estimates at 31 December 2018 would increase (decrease) impairment allowance on loans and advances by GEL 18,876 thousand (GEL 18,942 thousand) and would result in a change of the Bank's cost of credit risk ratio by 21 (21) basis points. As for the LGD ratio, a 10% increase (decrease) in LGD estimates at 31 December 2018 would increase (decrease) impairment allowance on loans and advances by GEL 28,185 thousand (GEL 28,012 thousand) and would result in a change of the Bank's cost of credit risk ratio by 31 (31) basis points.

Macro-economic scenarios: The Bank incorporates forward-looking information with three macro-economic scenarios to calculate unbiased and probability weighted ECL. They represent the Baseline scenario (most likely outcome) and two less likely scenarios, referred as the Upside (better than Baseline) and Downside (worse than Baseline). Weight for the baseline scenario is set to 50% and 25% weight is applied for each less likely scenarios.

To set the weight assigned to upside forward looking macro-economic set of assumptions to 15% and respectively increase the weight of the downside level assumptions from current 25% to 35% would increase impairment allowance on loans and advances by GEL 4,860 thousand and would result in a change of the Bank's cost of credit risk ratio by 5 basis points as at December 2018.

4 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of IFRS 9 "Financial Instruments". The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 2. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 2.

4 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category			Remeasurement	
In thousands of GEL	IAS 39	IFRS 9	Carrying value per IAS 39 (closing balance at 31 December 2017)	ECL Effect	Carrying value per IFRS 9 (opening balance at 1 January 2018)
Cash and cash equivalents	Loans and receivables	Amortised cost	**1,431,477**	**491**	**1,430,986**
Mandatory cash balances with the National Bank of Georgia	Loans and receivables	Amortised cost	**1,033,818**	**-**	**1,033,818**
Investments in debt securities	Available-for-sale	Fair value through other comprehensive income	**656,234**	**1,051**	**655,183**
Investments in debt securities	Loans and receivables	Amortised cost	**449,538**	**628**	**448,910**
Total investments in debt securities			**1,105,772**	**1,679**	**1,104,093**
Investments in equity securities	Available-for-sale	Fair value through other comprehensive income	**1,704**	**-**	**1,704**
Total investments in equity securities			**1,704**	**-**	**1,704**
Due from other banks	Loans and receivables	Amortised cost	**39,643**	**36**	**39,607**
Loans and advances to customers	Loans and receivables	Amortised cost	**8,325,353**	**63,731**	**8,261,622**
Total loans and advances to customers			**8,325,353**	**63,731**	**8,261,622**
Investment in finance lease	Finance lease receivables	Finance lease receivables	**143,836**	**739**	**143,097**
Total Investment in Finance Lease			**143,836**	**739**	**143,097**
Other financial assets	Loans and receivables	Amortised cost	**146,144**	**1,019**	**145,125**
Total other financial assets			**146,144**	**1,019**	**145,125**
Total financial assets			**12,227,747**	**67,695**	**12,160,052**

4 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

In addition to the GEL 67,700 thousands increase in total provision level for financial assets as at 1 January 2018, there has been a release of provision level for credit related commitments and performance guarantee contracts upon transition to the IFRS 9 on 1 January 2018 in amount of GEL 4,100 thousands. As a result, total provision at the Group level increased by GEL 63,600 thousands as at 1 January 2018. There were no material changes in amounts of financial liabilities. The impact GEL 63,600 thousands was recognized as a reduction of retained earnings in the consolidated financial statements from the adoption of the new standard on 1 January 2018. Related tax amount has been recognised according to local tax legislation and was considered during reassessment during deferred tax amount as of the reporting date.

Cash and cash equivalents. All classes of cash and cash equivalents as disclosed in Note 6 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The Group recognised credit loss allowance as disclosed above.

(a) Due from other banks. All classes of due from other banks balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

(b) Investments in debt securities. The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis:

- those previously classified as AFS and now classified as measured at FVOCI; and
- those previously classified as L&R measurement category now classified as measured at AC.

Investments in equity securities. The Group has elected to irrevocably designate strategic investments in a portfolio of non-trading equity securities as at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are impaired or disposed of. All other equity investments were classified at FVTPL as required by IFRS 9.

Loans and advances to customers. All classes of Loans and advances to customers' balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9. The Group does not hold such kind of portfolio of loans and advances to customers that failed to meet the SPPI requirement.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with expected loss model under IFRS 9 at 1 January 2018:

In thousands of GEL	Provision under IAS 39 or IAS 37 at 31 Dec 2017	Effect Remeasu-rement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
Loans and receivables measurment category			
- Cash and cash equivalents	-	491	491
- Investment in debt securities	-	1,679	1,679
- Due from other Banks	-	36	36
- Loans and advances to customers	227,864	63,731	291,595
- Investment in finance lease	1,498	739	2,237
- Other financial assets	18,020	1,019	19,039
Credit related commitments and performance guarantees	13,200	(4,100)	9,100

At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities

4 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS CONTINUED

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Group has adopted IFRS 15, Revenue from Contracts with Customers, with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Group.

The Group analysed its main revenue streams under the scope of IFRS 15 which are fee and commission income from card operations, cash and settlement transactions, other operating income generated from sales of inventory, investment property, and equipment. Those revenue streams were not affected by transition to IFRS 15 as there were no material changes to the revenue recognition process of applicable revenue streams, the Group had already been recognizing revenue over period of time, in line with the fulfilment of the respective performance obligations. The Group will continue to accrue over period of time those incomes that are earned from services that are provided over a period of time.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 - "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach);
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 – "Transfers of Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

5 NEW ACCOUNTING PRONOUNCEMENTS

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2018 and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC.

Major new IFRSs
IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

5 NEW ACCOUNTING PRONOUNCEMENTS CONTINUED

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019) (continued). IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of GEL 60,232 thousand against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 38 to this liability is as follows:

In thousands of GEL	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 37.)	**6,844**
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	**61,444**
- Effect of discounting to present value	**(8,056)**
Total effect on the Right of the use asset and Lease Liability	**60,232**

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

6 CASH AND CASH EQUIVALENTS

In thousands of GEL	**2018**	2017	2016
Cash on hand	**491,891**	419,602	402,523
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	**118,749**	371,342	135,557
Correspondent accounts and overnight placements with other banks	**369,431**	568,375	405,915
Placements with and receivables from other banks with original maturities of less than three months	**184,429**	69,452	772
Total gross amount of cash and cash equivalents	**1,164,500**	1,428,771	944,767
Less: Credit loss allowance	**(97)**	-	**-**
Total carrying amount of cash and cash equivalents	**1,164,403**	1,428,771	944,767

95% of the correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2017: 97%; 31 December 2016: 96%).

As of 31 December 2018 GEL 13,383 thousand was placed on interbank term deposits with one non-OECD bank and GEL 171,046 thousand with one OECD bank (31 December 2017 GEL 12,421 thousand was placed on interbank term deposits with one non-OECD bank and GEL 57,031 thousand with one OECD bank; 31 December 2016: GEL 772 thousand with four non-OECD banks).

Interest rate analysis of cash and cash equivalents is disclosed in Note 35.

6 CASH AND CASH EQUIVALENTS CONTINUED

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	**2018**	2017	2016
AAA	**5,883**	-	-
A+	**249,802**	271,366	78,324
A	**4,628**	62,281	258,025
A-	**-**	213,247	27,997
BBB+	**93,450**	3,235	-
BBB	**-**	383	23,174
BBB-	**872**	45	464
BB+	**241**	300	1,147
BB	**208**	217	-
BB-	**13,926**	13,379	2,952
B+	**395**	442	-
B	**26**	185	1,971
Not rated	**-**	3,295	11,861
Total	**369,431**	568,375	405,915

Credit rating of placements with and receivables from other banks with original maturities of less than three months stands as follows:

In thousands of GEL	**2018**	2017	2016
AAA	**10,021**	-	-
A	**-**	-	772
A-	**161,025**	-	-
BBB+	**-**	57,031	-
BB-	**-**	-	-
B+	**13,383**	-	-
Not rated	**-**	12,421	-
Total	**184,429**	69,452	772

The table illustrates the ratings by international agencies Standard & Poor's and Fitch Ratings. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used, after introduction of IFRS 9, as of January 2018, for those financial institutions which are not assigned credit ratings, country ratings are used. As of 31 December 2018 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2017: nil; 31 December 2016: nil). For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances as at 31 December 2018 is GEL 97 thousand. The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

7 DUE FROM OTHER BANKS

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2018, 2017 and 2016. Credit ratings of placements with other banks with original maturities of more than three months were as follows:

In thousands of GEL	**2018**	2017	2016
AA	**8,913**	-	-
A	**-**	8,632	13,210
BBB+	**80**	78	79
BBB	**3,838**	-	5,541
BB+	**4,388**	-	-
BB-	**19,500**	3,727	-
B+	**-**	661	-
B	**665**	1,520	4,973
Not rated	**-**	23,171	21
Total	**37,384**	37,789	23,824

As of 31 December 2018 the Group had one placement with one bank, with original maturities of more than three months and with aggregated amounts above GEL 5,000 thousand (2017: GEL 5,000 thousand; 2016: nil). The total aggregated amount of these placement was GEL 19,311 thousand (2017: GEL 23,147; 2016: nil) or 51.7% of the total amount due to other (2017: 61%).

As of 31 December 2018 GEL 15,725 thousand, (2017: GEL 13,121 thousand; 2016: GEL 19,511 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 41 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 35.

For the purpose of ECL measurement due from other banks balances are included in Stage 1. The ECL for these balances as at 31 December 2018 is GEL 39 thousand. The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

8 MANDATORY CASH BALANCES WITH THE NATIONAL BANK OF GEORGIA

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 6.0%, 0.8% and (0.6%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2018 (2017: 5.0%, 0.6% and (0.4%) in GEL, USD and EUR respectively; 2016: 5.0%, 0.0% and (0.4%) in GEL, USD and EUR respectively).

In August 2018 Fitch Ratings has affirmed Georgia's Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) at 'BB-' with a positive outlook. The issue ratings on Georgia's long-term senior unsecured foreign and local-currency bonds are also affirmed at 'BB-'. The Country Ceiling is affirmed at 'BB ' and the Short-term Foreign and Local-Currency IDRs at 'B'.

9 LOANS AND ADVANCES TO CUSTOMERS

In thousands of GEL	**2018**	2017	2016
Corporate loans	**3,177,289**	2,475,392	2,062,229
Consumer loans	**1,989,516**	2,163,425	1,872,142
Mortgage loans	**2,709,183**	2,069,728	1,808,434
Loans to micro, small and medium enterprises	**2,496,594**	1,844,672	1,615,920
Total gross loans and advances to customers at AC	**10,372,582**	8,553,217	7,358,725
Less: credit loss allowance	**(334,130)**	(227,864)	(225,023)
Total carrying amount of loans and advances to customers at AC	**10,038,452**	8,325,353	7,133,702

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

As of 31 December 2018 GEL 10,405,780 thousand of gross loans and advances to customers and GEL 325,936 thousand of credit loss allowance were attributable to the Bank (2017: GEL 8,562,746 thousand and GEL 215,198 thousand; 2016: GEL 5,889,829 thousand and GEL 197,961 thousand).

As of 31 December 2018 loans and advances to customers carried at GEL 228,454 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2017: GEL 246,267 thousand; 2016: GEL 120,093 thousand).

In 2018, the Group has reassessed its definition of segments as disclosed in Note 27. Some of the clients were reallocated to different segments. Comparative information as of 31 December 2017 and 31 December 2016 have not been updated due to impracticability.

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans and advances to customers carried at amortised cost between the beginning and the end of the reporting period:

Corporate loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**2,041,538**	**325,919**	**107,935**	**2,475,392**	**21,208**	**15,036**	**31,719**	**67,963**
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	**(93,957)**	**100,702**	**(6,745)**	**-**	**(1,811)**	**2,185**	**(374)**	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	**(3,395)**	**(85,409)**	**88,804**	**-**	**(32)**	**(8,341)**	**8,373**	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	**129,019**	**(126,886)**	**(2,133)**	**-**	**3,908**	**(3,908)**	**-**	**-**
New originated or purchased	**1,787,999**	**-**	**-**	**1,787,999**	**22,031**	**-**	**-**	**22,031**
Derecognised during the period	**(873,776)**	**(53,958)**	**(14,720)**	**(942,454)**	**(9,217)**	**(3,140)**	**(21,293)**	**(33,650)**
Net repayments	**(145,691)**	**(25,028)**	**(39,857)**	**(210,576)**	**-**	**-**	**-**	**-**
Other movements	**2**	**-**	**-**	**2**	**-**	**-**	**-**	**-**
Resegmentation	**36,699**	**488**	**-**	**37,187**	**283**	**-**	**-**	**283**
Net Write-offs	**-**	**-**	**(321)**	**(321)**	**-**	**-**	**3,269**	**3,269**
Net remeasurement due to stage transfers and risk parameters changes	**-**	**-**	**-**	**-**	**(3,430)**	**3,162**	**21,877**	**21,609**
FX movements	**24,877**	**2,885**	**2,298**	**30,060**	**-**	**-**	**-**	**-**
At 31 December 2018	**2,903,315**	**138,713**	**135,261**	**3,177,289**	**32,940**	**4,994**	**43,571**	**81,505**

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans to micro, small and medium enterprises	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	1,630,103	149,799	64,770	1,844,672	9,894	11,890	24,468	46,252
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	(142,901)	152,463	(9,562)	-	(13,479)	15,630	(2,151)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(83,887)	(21,578)	105,465	-	(6,489)	(2,130)	8,619	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	31,601	(30,683)	(918)	-	2,973	(2,552)	(421)	-
New originated or purchased	1,360,236	-	-	1,360,236	21,595	-	-	21,595
Derecognised during the period	(528,289)	(61,702)	(49,272)	(639,263)	(4,388)	(2,679)	(3,210)	(10,277)
Net repayments	(146,754)	(20,622)	788	(166,588)	-	-	-	-
Other movements	(21)	6	349	334	-	-	-	-
Resegmentation	75,069	23,747	1,725	100,541	4,377	8,457	1,611	14,445
Net Write-offs	-	-	(22,004)	(22,004)	-	-	(5,664)	(5,664)
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	4,781	(6,245)	5,997	4,533
FX movements	15,568	1,619	1,479	18,666	9	8	113	130
At 31 December 2018	2,210,725	193,049	92,820	2,496,594	19,273	22,379	29,362	71,014

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Consumer loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	**1,788,523**	**301,923**	**72,981**	**2,163,427**	**42,066**	**64,309**	**48,195**	**154,570**
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	**(244,838)**	**253,057**	**(8,219)**	**-**	**(34,737)**	**38,429**	**(3,692)**	**-**
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	**(97,030)**	**(64,020)**	**161,050**	**-**	**(28,073)**	**(16,142)**	**44,215**	**-**
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	**73,142**	**(71,235)**	**(1,907)**	**-**	**10,012**	**(9,115)**	**(897)**	**-**
New originated or purchased	**1,359,515**	**109**	**20**	**1,359,644**	**65,303**	**-**	**-**	**65,303**
Derecognised during the period	**(794,286)**	**(96,300)**	**(52,401)**	**(942,987)**	**(23,551)**	**(13,147)**	**(23,220)**	**(59,918)**
Net repayments	**(339,487)**	**(34,337)**	**32,155**	**(341,669)**	**-**	**-**	**-**	**-**
Other movements	**1,033**	**(77)**	**1,636**	**2,592**	**-**	**-**	**-**	**-**
Resegmentation	**(109,359)**	**(24,193)**	**(1,725)**	**(135,277)**	**(4,886)**	**(8,391)**	**(1,611)**	**(14,888)**
Net Write-offs	**-**	**-**	**(122,095)**	**(122,095)**	**-**	**-**	**(100,885)**	**(100,885)**
Net remeasurement due to stage transfers and risk parameters changes	**-**	**-**	**-**	**-**	**16,760**	**3,298**	**92,489**	**112,547**
FX movements	**4,780**	**746**	355	**5,881**	**9**	**4**	**(19)**	**(6)**
At 31 December 2018	**1,641,993**	**265,673**	**81,850**	**1,989,516**	**42,903**	**59,245**	**54,575**	**156,723**

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Mortgage loans	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
At 1 January 2018	1,839,707	189,887	40,136	2,069,730	1,371	9,336	12,102	22,809
Transfers:								
- to lifetime (from Stage 1 and stage 3 to Stage 2)	(144,596)	156,655	(12,059)	-	(2,118)	5,254	(3,136)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(14,734)	(20,146)	34,880	-	(1,700)	(1,248)	2,948	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	50,917	(50,040)	(877)	-	1,717	(1,466)	(251)	-
New originated or purchased	1,367,848	-	-	1,367,848	3,035	-	-	3,035
Derecognised during the period	(480,297)	(67,350)	(8,657)	(556,304)	(801)	(2,083)	(1,575)	(4,459)
Net repayments	(174,623)	(18,409)	(8,435)	(201,467)	-	-	-	-
Other movements	211	71	1,807	2,089	-	-	-	-
Resegmentation	(2,385)	(61)	-	(2,446)	(12)	(8)	-	(20)
Net Write-offs	-	-	(3,576)	(3,576)	-	-	1,963	1,963
Net remeasurement due to stage transfers and risk parameters changes	-	-	-	-	195	(632)	1,969	1,532
FX movements	28,555	3,803	951	33,309	9	13	6	28
At 31 December 2018	2,470,603	194,410	44,170	2,709,183	1,696	9,166	14,026	24,888

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Movements in the provision for loan impairment during 2018 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 31 December 2017	**49,626**	**121,538**	**17,577**	**39,123**	**227,864**
IFRS 9 effect	**18,337**	**33,032**	**5,232**	**7,129**	**63,730**
Credit Loss allowance as of 1 January 2018	**67,963**	**154,570**	**22,809**	**46,252**	**291,594**
Resegmentation effect	**446**	**(14,889)**	**(21)**	**14,464**	**-**
Credit loss allowance during the year:	**13,416**	**139,143**	**5,648**	**32,194**	**190,401**
Amounts written off during the period as uncollectible	**(320)**	**(122,095)**	**(3,576)**	**(22,004)**	**(147,995)**
Effect of translation to presentation currency	**-**	**(6)**	**28**	**108**	**130**
Credit Loss allowance as of 31 December 2018	**81,505**	**156,723**	**24,888**	**71,014**	**334,130**

Loans and advances to customers written off in 2018 included loans to customers in the gross amount of GEL 43,422 thousand issued in 2018, out of which, none was previously issued performance guarantee transformed into loan in 2018 and GEL 104,573 thousand issued in previous years.

Movements in the provision for loan impairment during 2017 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 1 January 2017	90,100	73,730	23,602	37,591	225,023
(Recovery of)/provision for impairment during the year	(11,088)	130,333	384	21,521	141,150
Amounts written off during the year as uncollectible	(29,386)	(82,601)	(6,507)	(20,265)	(138,759)
Effect of translation to presentation currency	-	76	98	276	450
Provision for loan impairment as of 31 December 2017	49,626	121,538	17,577	39,123	227,864

Loans and advances to customers written off in 2017 included loans to customers in the gross amount of GEL 21,056 thousand issued in 2017, a previously issued performance guarantee of GEL 6 thousand which was transformed into loan in 2017 and GEL 117,697 thousand issued in previous years.

Movements in the provision for loan impairment during 2016 were as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 1 January 2016	108,050	42,433	13,135	30,525	194,143
Resegmentation effect	-	10,092	-	(10,092)	-
Total provision for impairment during the year:	(11,841)	71,369	15,108	31,136	105,772
Provision for impairment charged to income statement during the year	(48,948)	60,438	12,572	25,140	49,202
Recoveries of loans previously written off	37,107	10,931	2,536	5,996	56,570
Amounts written off during the year as uncollectible	(6,109)	(50,121)	(4,580)	(13,755)	(74,565)
Effect of translation to presentation currency	-	(43)	(61)	(223)	(327)
Provision for loan impairment as of 31 December 2016	90,100	73,730	23,602	37,591	225,023

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Loans and advances to customers written off in 2016 included loans to customers in the gross amount of GEL 9,830 thousand issued in 2016, a previously issued performance guarantee of GEL 0.14 thousand which was transformed into loan in 2016 and GEL 64,735 thousand issued in previous years.

The credit loss allowance for loans and advances to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 35.

In 2018 the Group applied the portfolio provisioning methodology prescribed by IFRS 9. For details please refer to Note 2. For the periods before 1 January 2018, the Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and it created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The table below contains an analysis of the credit risk exposure of loans and advances to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Group's maximum exposure to credit risk on these loans. For details please refer to Note 2.

For the periods before 1 January 2018, the Group's policy for credit risk management purposes was to classify each loan as 'neither past due nor impaired', 'past due but not impaired', 'individually assessed impaired loans' and 'collectively assessed impaired loans'. The pool of 'neither past due nor impaired loans' included exposures that were not overdue and were not classified as impaired. 'Past due but not impaired' loans included overdue performing loans but with no objective evidence of impairment identified. The classification included as well triggered loans that were not impaired because the current value of the expected cash and collateral recoveries were sufficient for full repayment. 'Individually assessed impaired loans' included exposures which were assessed for impairment on an individual basis, and an ad-hoc impairment allowance was created. 'Collectively assessed impaired loans' included exposures for which objective evidence of impairment was identified and the respective collective impairment allowance was created.

The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

Individually assessed impaired loans' include exposures which are impaired and individual impairment is applied based on individual assessment. 'Collectively assessed impaired loans' include exposures for which default triggers were identified and the respective collective impairment allowance was created. Both individually and collectively impaired loans are classified as stage 3 exposures. The Group conducts collective assessment of the borrowers on a monthly basis. As for the individual assessment, it is performed quarterly.

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2018:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Corporate loans risk category				
- Very low	2,712,885	6,417	-	2,719,302
- Low	189,086	130,798	-	319,884
- Moderate	1,344	1,238	-	2,582
- High	-	260	-	260
- Default	-	-	135,261	135,261
Gross carrying amount	2,903,315	138,713	135,261	3,177,289
Credit loss allowance	(32,940)	(4,994)	(43,571)	(81,505)
Carrying amount	2,870,375	133,719	91,690	3,095,784
Consumer loans risk category				
- Very low	1,118,057	3,373	-	1,121,430
- Low	349,406	19,874	-	369,280
- Moderate	174,530	212,707	-	387,237
- High	-	29,719	-	29,719
- Default	-	-	81,850	81,850
Gross carrying amount	1,641,993	265,673	81,850	1,989,516
Credit loss allowance	(42,903)	(59,245)	(54,575)	(156,723)
Carrying amount	1,599,090	206,428	27,275	1,832,793
Mortgage loans risk category				
- Very low	2,268,634	20,051	-	2,288,685
- Low	177,274	62,060	-	239,334
- Moderate	24,695	104,550	-	129,245
- High	-	7,749	-	7,749
- Default	-	-	44,170	44,170
Gross carrying amount	2,470,603	194,410	44,170	2,709,183
Credit loss allowance	(1,697)	(9,165)	(14,026)	(24,888)
Carrying amount	2,468,906	185,245	30,144	2,684,295

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Loans to MSME risk category				
- Very low	1,865,077	16,285	-	1,881,362
- Low	324,306	72,742	-	397,048
- Moderate	21,342	84,520	-	105,862
- High	-	19,502	-	19,502
- Default	-	-	92,820	92,820
Gross carrying amount	2,210,725	193,049	92,820	2,496,594
Credit loss allowance	(19,301)	(22,379)	(29,334)	(71,014)
Carrying amount	2,191,424	170,670	63,486	2,425,580

For description of the credit risk grading used in the tables above refer to Note 35.

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Analysis by credit quality of loans outstanding as of 31 December 2017 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Neither past due nor impaired					
- Borrowers with credit history over two years	1,679,029	1,556,495	1,679,495	1,134,503	6,049,522
- New borrowers	708,038	479,433	338,456	619,528	2,145,455
Total neither past due nor impaired	2,387,067	2,035,928	2,017,951	1,754,031	8,194,977
Past due but not impaired					
- 1 to 30 days overdue	-	41,088	15,089	31,598	87,775
- 31 to 90 days overdue	-	26,433	10,620	13,395	50,448
- 91 to 180 days overdue	23,029	165	-	-	23,194
- 181 to 360 days overdue	-	116	-	-	116
- More than 360 days overdue	-	48	-	-	48
Total past due but not impaired	23,029	67,850	25,709	44,993	161,581
Individually assessed impaired loans					
- Not overdue	39,443	-	-	2,420	41,863
- 1 to 30 days overdue	10,351	-	-	-	10,351
- 31 to 90 days overdue	4,455	-	-	-	4,455
- 91 to 180 days overdue	48	-	-	-	48
- 181 to 360 days overdue	-	-	-	-	-
- More than 360 days overdue	8,740	-	-	-	8,740
Total individually assessed impaired loans	63,037	-	-	2,420	65,457
Collectively assessed impaired loans					
- Not overdue	1,266	6,669	5,912	6,744	20,591
- 1 to 30 days overdue	668	2,605	5,097	2,897	11,267
- 31 to 90 days overdue	-	4,078	5,595	3,542	13,215
- 91 to 180 days overdue	-	28,609	2,561	10,009	41,179
- 181 to 360 days overdue	-	10,246	4,335	8,969	23,550
- More than 360 days overdue	325	7,440	2,568	11,067	21,400
Total collectively assessed impaired loans	2,259	59,647	26,068	43,228	131,202
Total loans and advances to customers (before impairment)	2,475,392	2,163,425	2,069,728	1,844,672	8,553,217
Total provision	(49,626)	(121,538)	(17,577)	(39,123)	(227,864)
Total loans and advances to customers	2,425,766	2,041,887	2,052,151	1,805,549	8,325,353

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Analysis by credit quality of loans outstanding as of 31 December 2016 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Neither past due nor impaired					
- Borrowers with credit history over two years	1,279,999	1,030,204	1,203,461	836,773	4,350,437
- New borrowers	647,613	738,255	557,777	689,106	2,632,751
Total neither past due nor impaired	1,927,612	1,768,459	1,761,238	1,525,879	6,983,188
Past due but not impaired					
- 1 to 30 days overdue	10,369	38,214	7,565	31,904	88,052
- 31 to 90 days overdue	1,714	21,205	8,241	14,269	45,429
- 91 to 180 days overdue	-	146	-	227	373
- 181 to 360 days overdue	-	91	-	-	91
- More than 360 days overdue	2,864	28	-	-	2,892
Total past due but not impaired	14,947	59,684	15,806	46,400	136,837
Individually assessed impaired loans					
- Not overdue	101,273	-	195	2,832	104,300
- 1 to 30 days overdue	1,059	-	-	-	1,059
- 31 to 90 days overdue	7,966	-	-	-	7,966
- 91 to 180 days overdue	-	-	-	88	88
- 181 to 360 days overdue	2,455	-	34	436	2,925
- More than 360 days overdue	4,000	-	167	-	4,167
Total individually assessed impaired loans	116,753	-	396	3,356	120,505
Collectively assessed impaired loans					
- not overdue	776	5,493	7,129	5,301	18,699
- 1 to 30 days overdue	-	1,488	2,316	1,316	5,120
- 31 to 90 days overdue	908	2,622	2,443	5,223	11,196
- 91 to 180 days overdue	-	21,779	6,569	10,074	38,422
- 181 to 360 days overdue	1,233	7,660	8,371	11,291	28,555
- More than 360 days overdue	-	4,957	4,166	7,080	16,203
Total collectively assessed impaired loans	2,917	43,999	30,994	40,285	118,195
Total loans and advances to customers (before impairment)	2,062,229	1,872,142	1,808,434	1,615,920	7,358,725
Total provision	(90,100)	(73,730)	(23,602)	(37,591)	(225,023)
Total loans and advances to customers	1,972,129	1,798,412	1,784,832	1,578,329	7,133,702

The retail segment in Note 27 includes the following classes from the above tables: consumer and mortgage.

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2018		31 December 2017		31 December 2016	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**4,677,328**	**45%**	4,198,386	49%	3,721,450	51%
Energy & Utilities	**776,204**	**7%**	719,854	9%	540,116	7%
Hospitality & Leisure	**759,605**	**7%**	450,741	5%	319,497	4%
Food Industry	**570,810**	**6%**	524,286	7%	301,290	4%
Real Estate	**564,197**	**5%**	453,415	5%	252,112	3%
Trade	**445,290**	**4%**	394,495	5%	447,541	6%
Agriculture	**418,432**	**4%**	269,844	3%	212,148	3%
Construction	**359,549**	**3%**	233,771	3%	210,888	3%
Pawn Shops	**278,384**	**3%**	279,410	3%	305,031	4%
Communication	**229,522**	**2%**	114,032	1%	45,864	1%
Healthcare	**220,756**	**2%**	172,255	2%	182,131	3%
Services	**180,045**	**2%**	108,186	1%	109,187	1%
Automotive	**156,241**	**2%**	160,795	2%	144,157	2%
Metals and Mining	**100,855**	**1%**	84,419	1%	62,464	1%
Transportation	**80,075**	**1%**	96,427	1%	89,467	1%
Financial Services	**71,617**	**1%**	87,501	1%	188,646	3%
Other	**483,672**	**5%**	205,400	2%	226,736	3%
Total loans and advances to customers (before impairment)	**10,372,582**	**100%**	8,553,217	100%	7,358,725	100%

As of 31 December 2018 the Group had 170 borrowers (2017: 142 borrowers; 2016: 112 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 3,054,314 thousand (2017: GEL 2,437,750 thousand; 2016: GEL 1,900,916 thousand) or 29.4% of the gross loan portfolio (2017: 28.5%; 2016: 25.8%).

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. There are three key types of collateral:

- Real estate;
- Movable property including fixed assets, inventory and precious metals;
- Financial assets including deposits, stocks, and third party guarantees.

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

The effect of collateral as of 31 December 2018:

	Over-collateralised Assets		**Under-collateralised assets**	
In thousands of GEL	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Corporate loans	**2,857,207**	**6,516,492**	**320,082**	**47,249**
Consumer loans	**1,213,594**	**2,543,720**	**775,922**	**34,242**
Mortgage loans	**2,663,362**	**5,404,518**	**45,821**	**28,934**
Loans to micro, small and medium enterprises	**2,340,847**	**5,324,290**	**155,747**	**68,110**
Total	**9,075,010**	**19,789,020**	**1,297,572**	**178,535**

9 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The effect of collateral as of 31 December 2017:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	2,129,927	5,194,598	345,465	97,386
Consumer loans	908,387	2,132,566	1,255,038	25,781
Mortgage loans	2,042,001	4,429,201	27,727	17,189
Loans to micro, small and medium enterprises	1,688,438	3,970,931	156,234	146,949
Total	6,768,753	15,727,296	1,784,464	287,305

The effect of collateral as of 31 December 2016:

	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	1,849,202	5,683,279	213,027	109,076
Consumer loans	1,040,644	2,761,580	831,498	28,102
Mortgage loans	1,780,553	4,694,003	27,881	16,360
Loans to micro, small and medium enterprises	1,479,200	4,959,947	136,720	131,967
Total	6,149,599	18,098,809	1,209,126	285,505

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

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

Collateral values include the contractual price of third-party guarantees, which, due to their nature, are capped at the loan's carrying value. The values of third-party guarantees in the tables above amounted to GEL 625,719 thousand, GEL 527,498 thousand and GEL 608,058 thousand as of 31 December 2018, 2017 and 2016 respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 41 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 35. Information on related party balances is disclosed in Note 43.

Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to derecognition was GEL 196 thousand.

10 INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In thousands of GEL	**2018**	2017	2016
Corporate bonds	**549,477**	328,761	150,073
Ministry of Finance of Georgia Treasury Bills	**373,447**	319,745	241,810
Certificates of Deposit of the National Bank of Georgia	**14,985**	7,728	36,002
Georgian Government notes	**-**	-	1,016
Netherlands Government Bonds	**66,760**	-	-
Less: Credit loss allowance	**(1,136)**	-	-
Total debt securities	**1,003,533**	656,234	428,901
Corporate shares – unquoted	**1,706**	1,704	1,802
Total investment securities measured at fair value through other comprehensive income	**1,005,239**	657,938	430,703

All debt securities outstanding as of 2018, 2017 and 2016 except for corporate bonds and Netherlands Government Bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as assigned by international rating agencies in August 2018). Country rating for Netherlands stands at AAA with stable outlook as assigned by international rating agencies. 63.0% of corporate bonds are issued by triple A rated international financial institutions, 21.9% of corporate bonds are issued by A- rated international financial institutions, 9.8% and 0.5% of corporate bonds are issued by B+ and B rated corporations respectively, whereas 4.8% is issued by two non-rated corporations. The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible. At 1 January 2018, the Group designated investments in corporate shares disclosed in the above table as equity securities at FVOCI. In 2017 and 2016, these investments were classified as AFS. Refer to Note 4 for details. The FVOCI designation was made because the investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term. Investment securities balance for the separate financial statements as at 31 December 2016 does not include subsidiary Bank Republic, which was merged with TBC in 2017.

As of 31 December 2018 investment securities available for sale carried at GEL 613,466 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2017: GEL 424,892 thousand; 2016: GEL 205,216 thousand). Refer to Note 18. None of the debt securities measured at fair value through other comprehensive income are overdue or impaired. As of 31 December 2018 the principal equity investment securities measured at fair value through other comprehensive income are as follows:

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

Name	**Nature of business**	**Country of registration**	**Carrying value as of 31 December**		
In thousands of GEL			**2018**	2017	2016
JSC GRDC	Property development	Netherlands Antilles	**365**	365	365
Georgian Stock Exchange	Stock exchange	Georgia	**1,004**	1,004	1,004
Other			**337**	335	433
Total			**1,706**	1,704	1,802

In thousands of GEL	Note	**2018**	2017	2016
Carrying amount as of 1 January		**657,938**	430,703	307,310
Business Combination		**-**	-	153,004
Purchases		**717,630**	560,226	143,783
Disposals		**(14,781)**	-	(14,679)
Redemption at maturity		**(370,571)**	(345,748)	(167,115)
Revaluation		**6,966**	5,489	522
Interest income accrued	28	**57,057**	43,735	25,707
Interest income received		**(48,459)**	(36,214)	(17,900)
Impairment related to investment in equity security		**-**	-	(11)
Effect of translation to presentation currency		**595**	(158)	82
Transfer to investments in associate		**-**	(95)	-
Less: Credit loss allowance*		**(1,136)**	-	-
Carrying amount as of 31 December		**1,005,239**	657,938	430,703

**For the purpose of ECL measurement, securities balances are included in Stage 1. Refer to Note 35 for the ECL measurement approach. The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.*

11 BONDS CARRIED AT AMORTISED COST

In thousands of GEL	**2018**	2017	2016
Ministry of Finance Treasury Bills	**654,618**	424,876	323,478
Certificates of Deposit of the National Bank of Georgia	**-**	24,662	43,408
Georgian Government notes	**-**	-	6,070
Less: Credit loss allowance	**(915)**	-	-
Total bonds carried at amortised cost	**653,703**	449,538	372,956

All debt securities except for corporate bonds are issued by the Government of Georgia and National Bank of Georgia. Country rating for Georgia stands at BB- with stable outlook (as per international rating agencies in August 2018).

The movements in bonds carried at amortised cost are as follows:

In thousands of GEL	**2018**	2017	2016
Gross amount as of 1 January	**449,538**	372,956	372,092
Purchases	**395,717**	307,248	304,109
Redemption at maturity	**(200,658)**	(242,380)	(314,231)
Interest income accrual	**40,625**	32,328	30,714
Interest income received	**(30,611)**	(20,601)	(19,740)
Effect of translation to presentation currency	**7**	(13)	12
Less: Credit loss allowance	**(915)**	-	-
Gross amount as of 31 December	**653,703**	449,538	372,956

For the disclosure of bonds' fair value carried at amortised cost refer to Note 41. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 35.

As of 31 December 2018 bonds carried at amortised cost of GEL 212,337 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2017: GEL 223,860 thousand; 2016: GEL 273,311 thousand). Refer to Note 18.

None of the bonds carried at amortised cost as of 31 December 2018, 2017 and 2016 were either overdue or impaired.

For the purpose of ECL measurement securities balances are included in Stage 1. Refer to Note 35 for the ECL measurement approach. The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

12 OTHER FINANCIAL ASSETS

Other financial assets of the Group are as follows:

In thousands of GEL	**2018**	2017	2016
Receivables on repossessed assets disposed	**43,671**	6,618	10,603
Receivables on guarantees / letters of credit	**35,373**	2,941	-
Prepayments for purchase of leasing assets	**32,293**	25,478	10,628
Receivables on credit card services and money transfers	**14,390**	26,703	24,801
Receivable on terminated leases	**12,651**	8,961	7,832
Bank assurance income receivable	**9,618**	15,944	4,549
Trade receivable	**8,273**	13,862	2,232
Rental income receivables	**3,492**	4,414	3,816
Receivables on guarantees	**1,496**	18,042	18,215
Factored receivables	**-**	6,182	900
Other	**21,096**	23,010	14,979
Less: Credit loss allowance	**(28,094)**	(18,020)	(6,660)
Total other financial assets	**154,259**	134,135	91,895

12 OTHER FINANCIAL ASSETS CONTINUED

Other financial assets of the Bank are as follows:

In thousands of GEL	**2018**	2017	2016
Receivables on repossessed assets disposed	**43,671**	6,618	10,603
Receivables on guarantees / letters of credit	**35,373**	2,941	-
Receivables on credit card services and money transfers	**13,849**	26,241	24,151
Bank assurance income receivable	**9,618**	15,944	4,549
Rental income receivables	**3,492**	4,414	3,816
Receivables on guarantees	**1,511**	18,042	18,088
Trade receivable	**111**	-	-
Factored receivables	**-**	6,182	900
Other	**30,057**	40,207	40,199
Less: Provision for impairment	**(16,329)**	(10,180)	(299)
Total other financial assets	**121,353**	110,409	102,007

Movements in the credit loss allowance of other financial assets during 2018 for the Group were as follows:

In thousands of GEL	**Receivables on terminated leases**	**Other**	**Total**
Provision for impairment as of 31 December 2017	6,234	11,786	18,020
IFRS 9 effect	-	1,019	1,019
Credit loss allowance as of 1 January 2018	**6,234**	**12,805**	**19,039**
Credit loss allowance during the year	3,143	12,097	**15,240**
Amounts written off during the year as uncollectible	-	(6,404)	**(6,404)**
Foreign exchange translation gains less losses	-	219	**219**
Credit loss allowance as of 31 December 2018	**9,377**	**18,717**	**28,094**

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

Movements in th credit loss allowance of other financial assets during 2018 for the Bank were as follows:

In thousands of GEL	**Total**
Provision for impairment as of 31 Dcember 2017	**10,180**
IFRS 9 effect	**1,019**
Credit loss allowance as of 1 January 2018	**11,199**
Credit loss allowance as of 1 January 2018	11,315
Amounts written off during the year as uncollectible	(6,404)
Foreign exchange translation gains less losses	219
Credit loss allowance as of 31 December 2018	**16,329**

12 OTHER FINANCIAL ASSETS CONTINUED

Movements in the provision for impairment of other financial assets during 2017 for the Group were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2017	**4,666**	**1,994**	**6,660**
Business combination	1,568	**10,644**	**12,212**
Provision for impairment during the year	-	(1,010)	**(1,010)**
Amounts written off during the year as uncollectible	-	189	**189**
Recovery of amounts previously written off	-	(31)	**(31)**
Provision for impairment as of 31 December 2017	**6,234**	**11,786**	**18,020**

Movements in the provision for impairment of other financial assets during 2017 for the Bank were as follows:

In thousands of GEL	Total
Provision for impairment as of 1 January 2017	**299**
Business Combination	401
Provision for impairment during the year	9,772
Amounts written off during the year as uncollectible	(452)
Recovery of amounts previously written off	189
Foreign exchange translation gains less losses	(29)
Provision for impairment as of 31 December 2017	**10,180**

Movements in the provision for impairment of other financial assets during 2016 for the Group were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2016	**3,561**	**2,331**	**5,892**
Business combination	-	357	**357**
Provision for impairment during the year	1,105	1,464	2,569
Amounts written off during the year as uncollectible	-	(2,370)	**(2,370)**
Recovery of amounts previously written off	-	212	**212**
Provision for impairment as of 31 December 2016	**4,666**	**1,994**	**6,660**

Movements in the provision for impairment of other financial assets during 2016 for the Bank were as follows:

In thousands of GEL	Total
Provision for impairment as of 1 January 2016	**1,368**
Provision for impairment during the year	1,090
Amounts written off during the year as uncollectible	(2,371)
Recovery of amounts previously written off	212
Provision for impairment as of 31 December 2016	**299**

12 OTHER FINANCIAL ASSETS CONTINUED

As at 31 December 2018, presentation of other financial assets gross carrying amount and credit loss allowance for the Group by IFRS 9 stages are as follows:

	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime CL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	118,882	174	33,099	152,155	9,099	1	8,920	18,020
IFRS 9 effect	-	-	-	-	796	31	192	1,019
At 1 January 2018	118,882	174	33,099	152,155	9,895	32	9,112	19,039
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	-	(3)	3	-	(0)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,013)	(17)	5,030	-	(81)	(4)	85	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	210	(86)	(124)	-	57	(20)	(37)	-
New originated or purchased	54,802	13	35,855	90,670	4,439	1	5,596	10,036
Changes to ECL measurement model assumptions	-	-	-	-	(653)	8	7,707	7,062
Derecognised during the period	(26,786)	(44)	(1,243)	(28,073)	(509)	(6)	(1,343)	(1,858)
Net repayments	(6,070)	(14)	(130)	(6,214)	-	-	-	-
Net Write-offs	-	-	(16,772)	(16,772)	-	-	(6,404)	(6,404)
FX movements	(1,000)	-	(8,413)	(9,413)	-	-	219	219
At 31 December 2018	134,977	74	47,302	182,353	13,145	14	14,935	28,094

The newly originated exposure in Stage 3 of GEL 35,855 thousand mainly relates to the guarantee transferred to other financial assets.

As at 31 December 2018, presentation of other financial assets gross carrying amount and credit loss allowance of bank by IFRS 9 stages are as follows:

	Gross carrying amount				Credit loss allowance			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	87,316	174	33,099	120,589	1,259	1	8,920	10,180
IFRS 9 effect	-	-	-	-	796	31	192	1,019
At 1 January 2018	87,316	174	33,099	120,589	2,055	32	9,112	11,199
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(48)	48	-	-	(3)	3	-	(0)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,013)	(17)	5,030	-	(81)	(4)	85	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	210	(86)	(124)	-	57	(20)	(37)	-
New originated or purchased	41,697	13	35,855	77,565	514	1	5,596	6,111
Changes to ECL measurement model assumptions	-	-	-	-	(654)	8	7,707	7,061
Derecognised during the period	(26,786)	(44)	(1,243)	(28,073)	(509)	(6)	(1,342)	(1,857)
Net repayments	(6,070)	(14)	(130)	(6,214)	-	-	-	-
Net Write-offs	-	-	(16,772)	(16,772)	-	-	(6,404)	(6,404)
FX movements	(1,000)	-	(8,413)	(9,413)	-	-	219	219
At 31 December 2018	90,306	74	47,302	137,682	1,379	14	14,936	16,329

12 OTHER FINANCIAL ASSETS CONTINUED

The table below illustrates the credit quality of other financial receivables:

In thousands of GEL	**2018**	2017	2016
Neither past due nor impairment			
- Receivables on credit card services and money transfers	**14,390**	26,703	24,801
- Prepayments for purchase of leasing assets	**32,293**	25,478	10,628
- Factored receivables	**-**	6,182	900
- Bank assurance income receivable	**9,618**	15,944	4,549
- Rental income receivables	**3,492**	4,414	3,816
- Receivables on repossessed assets disposed	**43,671**	6,480	5,700
- Receivables on guarantees / letters of credit	**1,496**	2,989	1,089
- Trade receivable	**8,273**	13,862	2,232
- Other	**18,968**	17,833	9,014
Total neither past due nor impaired	**132,201**	119,885	62,729
Past due but not impaired			
- Receivables on guarantees			
- More than 90 days overdue	**-**	16,773	17,126
Total past due but not impaired	**-**	16,773	17,126
Receivables individually determined to be impaired (gross)			
- Receivables on terminated leases	**12,651**	8,961	7,832
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**12,651**	8,961	7,832
- Receivables on guarantees and letters of credit	**35,373**	1,221	-
- Less than 90 days overdue	**35,373**	-	-
- More than 90 days overdue	**-**	1,221	-
- Receivables on repossessed assets disposed	**-**	138	4,903
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**-**	138	4,903
- Other receivables	**2,128**	5,177	5,965
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**2,128**	5,177	5,965
Total individually impaired (gross)	**50,152**	15,497	18,700
Less impairment provision	**(28,094)**	(18,020)	(6,660)
Total other financial assets	**154,259**	134,135	91,895

12 OTHER FINANCIAL ASSETS CONTINUED

The table below illustrates the credit quality of the Bank's other financial receivables:

In thousands of GEL	**2018**	2017	2016
Neither past due nor impairment			
- Receivables on credit card services and money transfers	**13,849**	26,241	24,151
- Prepayments for purchase of leasing assets	**-**	-	-
- Factored receivables	**-**	6,182	900
- Bank assurance income receivable	**9,618**	15,944	4,549
- Rental income receivables	**3,492**	4,414	3,816
- Receivables on repossessed assets disposed	**43,671**	6,480	5,700
- Receivables on guarantees / letters of credit	**1,511**	2,989	962
- Trade receivable	**111**	-	-
- Other	**27,929**	35,030	34,233
Total neither past due nor impaired	**100,181**	97,280	74,311
Past due but not impaired			
- Receivables on guarantees			
- More than 90 days overdue	**-**	16,773	17,126
Total past due but not impaired	**-**	16,773	17,126
Receivables individually determined to be impaired (gross)			
- Receivables on terminated leases	**-**	-	-
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**-**	-	-
- Receivables on guarantees and letters of credit	**35,373**	1,221	-
- Less than 90 days overdue	**35,373**	-	-
- More than 90 days overdue	**-**	1,221	-
- Receivables on repossessed assets disposed	**-**	138	4,903
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**-**	138	4,903
- Other receivables	**2,128**	5,177	5,966
- Less than 90 days overdue	**-**	-	-
- More than 90 days overdue	**2,128**	5,177	5,966
Total individually impaired (gross)	**37,501**	6,536	10,869
Less impairment provision	**(16,329)**	(10,180)	(299)
Total other financial assets	**121,353**	110,409	102,007

Credit rating of Group's other financial assets neither past due nor impaired is as follows:

In thousands of GEL	**2018**	2017	2016
A+	**1,917**	13,003	2,508
A	**4,949**	4,116	14,086
BBB+	**6,263**	6,265	845
BBB	**35,663**	-	-
BB	**7**	217	-
BB-	**94,479**	7	-
B+	**2,182**	4,332	1,007
B	**-**	726	2,645
Not rated	**-**	91,219	41,638
Total	**145,460**	119,885	62,729

12 OTHER FINANCIAL ASSETS CONTINUED

Credit rating of Bank's other financial assets neither past due nor impaired is as follows:

In thousands of GEL	**2018**	2017	2016
A+	**1,917**	13,003	2,508
A	**4,949**	4,116	14,086
BBB+	**624**	1,132	660
BBB	**35,373**	-	-
BB	**-**	-	-
BB-	**76,318**	-	-
B+	**2,135**	3,784	860
B	**-**	-	2,437
Not rated	**-**	75,245	53,760
Total	**121,316**	97,280	74,311

Impaired receivables include receivables on terminated leases and other receivables for which impairment provision was assessed individually. A receivable's overdue status is a primary factor for the Group to consider a receivable as impaired. Receivables on terminated leases individually determined to be impaired are under-collateralised and their estimated fair value of collateral amounts to GEL 1,484 thousand (2017: GEL 1,206 thousand; 2016: GEL 2,039 thousand). The remaining assets are not collateralized.

13 INVESTMENTS IN FINANCE LEASE

As of 31 December 2018 investments in finance lease of GEL 203,802 thousand (2017: GEL 143,836 thousand; 2016: GEL 95,031 thousand) are represented by leases of fixed assets excluding land and buildings.

In thousands of GEL	**Due in 1 year**	**Due between 1 and 5 years**	**Total**
Finance lease payments receivable as of 31 December 2018	**122,056**	**148,623**	**270,679**
Unearned finance income	**(32,981)**	**(30,294)**	**(63,275)**
Credit loss allowance	**(1,789)**	**(1,813)**	**(3,602)**
Present value of lease payments receivable as of 31 December 2018	**87,286**	**116,516**	**203,802**
Finance lease payments receivable as of 31 December 2017	86,186	105,595	191,781
Unearned finance income	(23,720)	(22,727)	(46,447)
Impairment loss provision	(765)	(733)	(1,498)
Present value of lease payments receivable as of 31 December 2017	61,701	82,135	143,836
Finance lease payments receivable as of 31 December 2016	65,265	56,672	121,937
Unearned finance income	(15,302)	(10,462)	(25,764)
Impairment loss provision	(678)	(464)	(1,142)
Present value of lease payments receivable as of 31 December 2016	49,285	45,746	95,031

For fair values refer to Note 41.

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016.

The credit loss allowance as at 31 December 2018 is reported under IFRS 9 and is not comparable to the information presented for 2017 and 2016. The table below illustrates the movements in the credit loss allowance of net investment in finance lease:

In thousands of GEL	**31 December 2018**	**31 December 2017**	**31 December 2016**
Credit loss allowance at the beginning of the year	**2,237**	1,142	738
Credit loss allowance during the year	**1,765**	492	558
Amounts written off during the year as uncollectible	**(400)**	(136)	(154)
Credit loss allowance at the end of the year	**3,602**	1,498	1,142

13 INVESTMENTS IN FINANCE LEASE CONTINUED

The following table discloses the changes in the credit loss allowance and gross carrying amount for Investments in finance lease between the beginning and the end of the reporting period:

	Credit loss allowance				Gross carrying amount			
In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
At 31 December 2017	519	51	928	1,498	128,500	11,610	5,224	145,334
IFRS 9 effect	345	394	-	739	-	-	-	-
At 1 January 2018	864	445	928	2,237	128,500	11,610	5,224	145,334
Transfers:								
- to lifetime (from Stage 1 and Stage 3 to Stage 2)	(9)	9	-	-	(3,996)	4,078	(82)	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(367)	(20)	387	-	(10,605)	(4,533)	15,138	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	357	(357)	-	-	1,052	(1,033)	(19)	-
New originated or purchased	1,350	108	256	1,714	120,992	7,208	5,165	133,365
Derecognised during the period	(103)	(81)	(717)	(901)	(36,040)	(5,372)	(3,541)	(44,953)
Partial repayment	-	-	-	-	(24,985)	(1,468)	(4,887)	(31,340)
Net repayments	(47)	101	498	552	-	-	-	-
Foreign currency effect	-	-	-	-	1,250	94	289	1,633
Other movements	-	-	-	-	2,003	277	1,085	3,365
At 31 December 2018	2,045	205	1,352	3,602	178,171	10,861	18,372	207,404

The Group applied the portfolio provisioning methodology prescribed by IFRS 9 for the periods beginning 1 January 2018 and IAS 39 for the periods before 1 January 2018 and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors taken into account to consider whether or not a lease is impaired are the deterioration of the lessee's financial position, its overdue status, and liquidity of the leased asset. The impact of IFRS 9 was immaterial for terminated leases.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under the finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are:

- Leased assets (inventory and equipment);
- Down payment;
- Real estate properties;
- Third party guarantees.

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

13 INVESTMENTS IN FINANCE LEASE CONTINUED

Per IFRS 9 impairment methodology, the Company classifies its portfolio into three stages:

- Stage 1 – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage 2 – assets for which significant increase in credit risk since initial recognition is identified;
- Stage 3 – credit-impaired exposures.

For stage 1 exposures the Company creates 12 months expected credit losses, whereas for stage 2 and stage 3 lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage 2 classification and incorporation of forward looking information in allowance calculation. For stage 1 no increase was identified considering that the Company has already been applying 12 months loss identification period (LIP) under IAS 39 methodology.

For the Stage 2 classification purposes the Company applies both quantitative and the qualitative criteria including, but not limited to:

- 30 days past due (DPD) overdue;
- Downgrade of the risk category of the borrower since initial recognition.

Under IFRS 9 methodology the Company updated its default definition criteria as well in order to make it consistent with the Company's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue (ii) distressed restructuring and (iii) other criteria indicating the borrower's unlikeness to repay the liabilities.

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Company incorporates forward looking information for both individual and collective assessment. For FLI purposes the Company defines three scenarios, which are:

- Baseline (most likely);
- Upside (better than most likely);
- Downside (worse than most likely).

The Company derives the baseline macro scenario and takes into account projections from various external sources – the National Bank of Georgia, Ministry of Finance, IMF as well as other IFIs - to ensure the alignment to the consensus market expectations. Refer to note 36 for the description of how the Group incorporates FLI in ECL calculations. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Company calculates expected impairment losses for each scenario. In order to come up with the final expected credit loss figures the bank applies probability weighted average approach where probabilities of each scenario are used as weights.

As at 31 December 2018, credit quality of net investment in finance lease is analysed below:

In thousands of GEL	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Investments in Finance Lease risk category				
- Very low	**145,220**	**-**	**-**	**145,220**
- Low	**32,951**	**2,350**	**-**	**35,301**
- Moderate	**-**	**6,712**	**-**	**6,712**
- High	**-**	**1,799**	**-**	**1,799**
- Default	**-**	**-**	**18,372**	**18,372**
Gross carrying amount	**178,171**	**10,861**	**18,372**	**207,404**
Credit loss allowance	**(2,045)**	**(205)**	**(1,352)**	**(3,602)**
Carrying amount	**176,126**	**10,656**	**17,020**	**203,802**

13 INVESTMENTS IN FINANCE LEASE CONTINUED

Credit quality of net investment in finance lease as at 31 December 2017 and 2016 is analysed below:

In thousands of GEL	31 December 2017	31 December 2016
Neither past due nor impaired		
- Customers with more than two year experience	22,705	28,084
- New customers	90,668	45,404
Total neither past due nor impaired	113,373	73,488
Past due but not impaired		
- Less than 30 days overdue	19,047	15,357
- 31 to 90 days overdue	9,310	5,101
Total past due but not impaired	28,357	20,458
impaired leases		
- Not overdue	-	-
- 1 to 30 days overdue	-	-
- 31 days to 90 days overdue	343	-
- From 91 to 180 days	2,204	1,079
- From 181 to 360 days	339	966
- More than 360 days	718	182
Total impaired gross*	3,604	2,227
Total investment in finance lease	145,334	96,173
Impairment loss provision	(1,498)	(1,142)
Total net investment in finance lease	143,836	95,031

*Total impaired leases include both collectively and individually impaired leases

The effect of collateral as of 31 December 2018:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of GEL	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of c ollateral**
Investment in leases	**166,362**	**253,582**	**41,042**	**34,527**
Total	**166,362**	**253,582**	**41,042**	**34,527**

The effect of collateral as of 31 December 2017:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	96,015	153,813	49,319	9,710
Total	96,015	153,813	49,319	9,710

The effect of collateral as of 31 December 2016:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	75,364	112,917	20,809	16,817
Total	75,364	112,917	20,809	16,817

14 OTHER ASSETS

In thousands of GEL	**2018**	2017	2016
Current other assets			
Inventories of repossessed collateral	**120,663**	116,809	90,873
Prepayments for other assets	**27,923**	9,605	28,575
Other inventories	**3,979**	4,135	3,963
Prepaid taxes other than income tax	**772**	5,788	3,326
Other debtors	**-**	-	35,497
Total current other assets	**153,337**	136,337	162,234
Non-current other assets			
Assets repossessed from terminated leases	**10,819**	3,210	2,673
Assets purchased for leasing purposes	**6,985**	2,733	286
Prepayments for construction in progress	**2,260**	2,745	2,445
Prepaid insurance of leasing assets	**2,330**	1,884	937
Other	**2,192**	883	2,181
Total non-current other assets	**24,586**	11,455	8,522
Total other assets	**177,923**	147,792	170,756

Included in Other Debtors is receivable from one corporate client, in respect of settlement of previously written-off loan.

Inventories of repossessed collateral represent real estate assets and equipment acquired by the Group in settlement of impaired loans, other than those classified as investment property or premises and equipment. The Group expects to dispose these assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value. In 2018, collateral repossessed for settlement of impaired loans amounted to GEL 30 million (2017: GEL 53 million; 2016: GEL 39 million).

With regards to certain inventories of repossessed collaterals, the Group has granted previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 18 months from the date of repossession, during this time the Group is obliged not to dispose of the repossessed collateral to third parties. As of 31 December 2018, the carrying value of the inventories of repossessed collateral subjected to the repurchase agreement was GEL 44,024 thousand (2017: GEL 11,170 thousand; 2016: GEL 20,342 thousand).

15 PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construct-ion in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 1 January 2016	162,126	152,662	50,033	364,821	67,344	432,165
Accumulated depreciation/ amortisation Including accumulated impairment loss	(29,545)	(87,509)	-	(117,054)	(23,000)	(140,054)
Carrying amount as of 1 January 2016	132,581	65,153	50,033	247,767	44,344	292,111
Additions	5,512	19,173	6,206	30,891	18,868	49,759
Business combination	49,928	7,975	36	57,939	6,534	64,473
Transfers within premises and equipment	3,042	-	(3,042)	-	-	-
Transfers to Investment Property	(298)	-	-	(298)	-	(298)
Disposals	(2,571)	(3,836)	(69)	(6,476)	(4)	(6,480)
Effect of translation to presentation currency - Cost	(31)	(45)	-	(76)	(12)	(88)
Impairment charge to profit and loss	(574)	(675)	-	(1,249)	(2,043)	(3,292)
Depreciation/amortisation charge	(3,185)	(16,783)	-	(19,968)	(6,977)	(26,945)
Elimination of accumulated depreciation/amortisation on disposals	2,439	2,555	-	4,994	-	4,994
Effect of translation to presentation currency - Accumulated depreciation	28	32	-	60	(12)	48
Carrying amount as of 31 December 2016	186,871	73,549	53,164	313,584	60,698	374,282
Cost or valuation as of 31 December 2016	217,134	175,254	53,164	445,552	90,687	536,239
Accumulated depreciation/ amortisation including accumulated impairment loss	(30,263)	(101,705)	-	(131,968)	(29,989)	(161,957)
Carrying amount as of 31 December 2016	186,871	73,549	53,164	313,584	60,698	374,282
Additions	5,298	25,894	48,664	79,856	34,559	114,415
Business combination	11,326	-	(11,326)	-	-	-
Transfers within premises and equipment	1,114	-	-	1,114	-	1,114
Transfers to Investment Property	(2,334)	(9,576)	-	(11,910)	(88)	(11,998)
Disposals	-	261	-	261	-	261
Effect of translation to presentation currency - Cost	25	54	-	79	11	90
Impairment charge to profit and loss	(6)	(730)	(46)	(782)	(1,916)	(2,698)
Depreciation/amortisation charge	(5,455)	(19,982)	-	(25,437)	(10,279)	(35,716)
Elimination of accumulated depreciation/amortisation on disposals	747	8,628	-	9,375	30	9,405
Effect of translation to presentation currency - Accumulated depreciation	(25)	(50)	-	(75)	57	(18)
Carrying amount as of 31 December 2017	**197,561**	**78,048**	**90,456**	**366,065**	**83,072**	**449,137**

15 PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construct-ion in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 31 December 2017	232,557	191,157	90,456	514,170	123,253	637,423
Accumulated depreciation/ amortisation including accumulated impairment loss	(34,996)	(113,109)	-	(148,105)	(40,181)	(188,286)
Carrying amount as of 31 December 2017	197,561	78,048	90,456	366,065	83,072	449,137
Additions	8,395	46,118	8,538	63,051	41,958	105,009
Business combination	3,607	301	-	3,908	-	3,908
Transfers within premises and equipment	2,661	-	(2,661)	-	-	-
Transfer from investment property	-	-	1,317	1,317	-	1,317
Transfer to investment property	-	-	(32,628)	(32,628)		(32,628)
Disposals	(3,948)	(23,062)	-	(27,010)	(517)	(27,527)
Revaluation	10,635	-	114	10,749	-	10,749
Effect of translation to presentation currency - Cost	23	23	-	46	11	57
Impairment charge to profit and loss	(474)	(21)	(4)	(499)	-	(499)
Depreciation/amortisation charge	(5,575)	(22,422)	-	(27,997)	(16,100)	(44,097)
Elimination of accumulated depreciation/amortisation on disposals	155	8,901	-	9,056	89	9,145
Effect of translation to presentation currency - Accumulated depreciation	(22)	35	-	13	(8)	5
Carrying amount as of 31 December 2018	213,018	87,921	65,132	366,071	108,505	474,576
Cost or valuation as of 31 December 2018	253,456	214,516	65,132	533,104	164,705	697,809
Accumulated depreciation/ amortisation including accumulated impairment loss	(40,438)	(126,595)	-	(167,033)	(56,200)	(223,233)
Carrying amount as of 31 December 2018	213,018	87,921	65,132	366,071	108,505	474,576

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

15 PREMISES, EQUIPMENT AND INTANGIBLE ASSETS CONTINUED

As of 31 December 2018 GEL 335,286 thousand of premises and equipment and GEL 104,066 thousand of intangible assets were attributable to the Bank (2017: GEL 343,988 thousand and GEL 78,995 thousand; 2016: GEL 236,001 thousand and GEL 52,305 thousand).

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and the Bank's new headquarters. Upon completion, assets are to be transferred to premises.

The latest valuation date of premises to market value is 30 November 2018. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	**Fair value as of 30 November 2018 (valuation date)**	**Valuation technique**	**Other key information**	**Unobservable inputs**	**Range of unobservable inputs (weighted average)**
Office buildings	153,590	Sales comparison approach	Land	Price per square meter	287 – 10,274 (577)
			Buildings		670 – 5,257 (2,715)
Branches	98,737	Sales comparison approach	Land	Price per square meter	7 – 4,057 (235)
			Buildings		337 – 12,911 (2,982)

The management considers that the fair value has not changed significantly between 30 November 2018 and 31 December 2018. Fair value of respective assets is disclosure below.

Sensitivity of the input to fair value - increase/(decrease) in the price per square metre would result in increase/(decrease) in fair value.

As of 31 December 2018 the carrying amount of premises would have been GEL 166,707 thousand (2017: GEL 144,778 thousand; 2016: GEL 134,352 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2018 the carrying amount of construction in progress would have been GEL 42,243 thousand (2017: GEL 67,033 thousand; 2016: GEL 30,394 thousand) had the assets been carried at cost less impairment losses.

16 INVESTMENT PROPERTIES

In thousands of GEL	Note	2018	2017	2016
Gross book value as of 1 January		**83,871**	99,347	60,648
Accumulated depreciation as of 1 January		**(4,639)**	(3,732)	(3,048)
Carrying amount as of 1 January		**79,232**	95,615	57,600
Transfer to premises and equipment	15	**(1,317)**	(1,143)	-
Transfer from inventories of repossessed collateral		**4,625**	752	15,935
Transfer to repossessed collateral		**-**	(590)	-
Addition from foreclosure		**-**	943	6,820
Disposals at cost		**(36,080)**	(15,438)	(6,892)
Elimination of depreciation on disposal		**3,232**	259	253
Depreciation charge		**(1,181)**	(1,166)	(937)
Acquisition through business combination		**3,157**	-	22,836
Transfer from Property plant and equipment		**32,628**	-	-
Gross book value as of 1 January		**86,884**	83,871	99,347
Accumulated depreciation as of 1 January		**(2,588)**	(4,639)	(3,732)
Carrying amount as of 31 December		**84,296**	79,232	95,615

As of 31 December 2018, investment properties comprised of 73 lots (2017: 102 lots; 2016: 62 lots) of land and 127 buildings (2017: 144 buildings; 2016: 141 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 97,425 thousand (2017: GEL 85,012 thousand; 2016: GEL 123,852 thousand).

For disclosure purposes a fair valuation exercise was carried out for investment properties as of 31 December 2018. The valuation in 2018 was carried out by external valuators (in 2017 and 2016 by internal valuators) who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, particularly based on a sufficient number of registered sales and proposals by the date of valuation.

In thousands of GEL (except for range of inputs)	Fair value as of 31 December 2018 (valuation date)	Valuation technique	Unobservable inputs	Range of unobser-vable inputs (weighted average)
Land	**44,315**	**Sales comparison approach**	**Price per square meter**	**0.80 – 974 (88)**
Buildings	**53,110**	**Sales comparison approach**	**Price per square meter**	**3.92 – 4,098 (960)**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

In thousands of GEL	2018	2017	2016
Not later than 1 year	**185**	177	463
Later than 1 year and not later than 5 years	**-**	-	805
Total operating lease payments receivable	**185**	177	1,268

17 GOODWILL

Movements in goodwill arising on the acquisition of subsidiaries are:

	Note	2018	2017	2016
Carrying amount as of 1 January		**26,892**	26,892	2,726
Acquisition of subsidiaries	**44**	**2,567**	-	24,166
Carrying amount as of 31 December		**29,459**	26,892	26,892

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2018	2017	2016
JSC Bank Republic*	**24,166**	24,166	24,166
Bank Republic Retail	**11,088**	11,088	-
Bank Republic Corporate	**7,491**	7,491	-
Bank Republic MSME	**4,791**	4,791	-
Bank Republic Other	**796**	796	-
LLC Bonaco (Note 44)	**2,567**	-	-
CGU Micro	**769**	769	769
JSC United Financial Corporation	**695**	695	695
LLC TBC Kredit	**1,262**	1,262	1,262
Total carrying amount of goodwill	**29,459**	26,892	26,892

*Due to Bank Republic merger in 2017, carrying amount of goodwill was allocated across multiple CGU's of the Bank, that also equal to the operating and reporting segments.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

In thousands of GEL	2018	2017	2016
JSC Bank Republic**			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**20.27% p.a.**	18.71% p.a.	21.72% p.a.
CGU SME / JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**13.06% p.a.**	12.01% p.a.	14.39% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	**5.54% p.a.**	4.17% p.a.	4.00% p.a.
Pre-tax discount rate	**18.31% p.a.**	18.16% p.a.	19.18% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	**1.3% p.a.**	1.3% p.a.	4.00% p.a.
Pre-tax discount rate	**24.57% p.a.**	31.35% p.a.	28.10% p.a.

**Assumptions related to JSC Bank Republic are similar for all related CGU's.

17 GOODWILL CONTINUED

Goodwill Impairment Test *Continued.* The management determined the budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in the industry reports. The discount rates reflect specific risks related to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Retail had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 84,111 thousand (2017: GEL 781,330 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 21.77% p.a. (2017: 29.92% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic Corporate had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 850,072 thousand (2017: GEL 402,679 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 38.86% p.a. (2017: 27.97% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Bank Republic MSME had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU. Recoverable amount of Bank Republic Retail CGU exceeds its carrying amount by GEL 461,500 thousand (2017: GEL 246,759 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 35.83% p.a. (2017: 27.11% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU Micro/JSC Bank Constanta had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2017: nil; 2016: nil). Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 913,325 thousand (2017: GEL 440,075 thousand; 2016: GEL 284,402 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 48.53% p.a. (2017: 34.60% p.a.; 2016: 30.74%p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2017: nil and 2016: nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 13,458 thousand (2017: GEL 17,866 thousand; 2016: GEL 13,073 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 29.8% p.a. (2017: 39.27% p.a.; 2016: 46.36% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of goodwill (2017:nil; 2016: nill). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 277,830 thousand (2017: GEL 36,420 thousand; 2016: GEL 20,505 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 132.34% of p.a.(2017: 119.51% p.a.; 2016: 68.64% p.a.).

18 DUE TO CREDIT INSTITUTIONS

In thousands of GEL	**2018**	2017	2016
Due to other banks			
Correspondent accounts and overnight placements	**23,273**	21,777	23,271
Deposits from banks	**136,161**	64,441	176,443
Short-term loans from banks	**-**	-	117,592
Total due to other banks	**159,434**	86,218	317,306
Other borrowed funds			
Borrowings from foreign banks and financial institutions	**2,065,560**	1,591,778	1,412,095
Borrowings from local banks and financial institutions	**769,911**	908,271	439,234
Borrowings from Ministry of Finance	**1,520**	2,914	4,203
Borrowings from other financial institutions	**35,080**	55,533	27,138
Total other borrowed funds	**2,872,071**	2,558,496	1,882,670
Total amounts due to credit institutions	**3,031,505**	2,644,714	2,199,976

As of 31 December 2018 GEL 2,859,090 of due to credit institutions were attributable to the Bank (2017: GEL 2,515,633 thousand; 2016: GEL 1,389,020).

As of 31 December 2018 for the purposes of maturity analysis of financial liabilities (Note 35) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

19 CUSTOMER ACCOUNTS

In thousands of GEL	**2018**	2017	2016
State and public organisations			
- Current/settlement accounts	**667,553**	810,783	240,743
- Term deposits	**538,311**	209,641	78,990
Other legal entities			
- Current/settlement accounts	**2,797,214**	2,211,502	2,145,028
- Term deposits	**337,697**	225,132	248,670
Individuals			
- Current/demand accounts	**2,426,597**	1,973,685	1,618,434
- Term deposits	**2,677,374**	2,404,580	2,129,717
Total customer accounts	**9,444,746**	7,835,323	6,461,582

State and public organisations include government owned profit orientated businesses.
Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017		31 December 2016	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**5,103,971**	**54%**	4,378,265	56%	3,748,151	58%
Construction	**613,973**	**7%**	377,944	5%	222,372	3%
Trade	**550,527**	**6%**	209,339	3%	305,022	5%
Government sector	**531,964**	**6%**	330,356	4%	140,852	2%
Transportation	**486,939**	**5%**	376,333	5%	188,388	3%
Energy & Utilities	**417,037**	**4%**	429,722	5%	283,497	4%
Financial Services	**397,653**	**4%**	398,278	5%	501,591	8%
Services	**360,084**	**4%**	236,128	3%	274,138	4%
Real Estate	**207,227**	**2%**	119,507	2%	82,893	1%
Hotels and Leisure	**102,529**	**1%**	174,777	2%	104,066	2%
Healthcare	**76,464**	**1%**	106,439	1%	64,493	1%
Agriculture	**35,884**	**0%**	29,199	0%	37,850	1%
Metals and Mining	**12,479**	**0%**	16,976	0%	22,817	0%
Food Industry	**-**	**0%**	175,676	2%	82,984	1%
Automotive	**-**	**0%**	71,628	1%	53,865	1%
Communication	**-**	**0%**	50,059	1%	56,787	1%
Other	**548,015**	**6%**	354,697	5%	291,816	5%
Total customer accounts	**9,444,746**	**100%**	7,835,323	100%	6,461,582	100%

19 CUSTOMER ACCOUNTS CONTINUED

As of 31 December 2018 the Group had 310 customers (2017: 261 customers; 2016: 222 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 4,242,990 thousand (2017: GEL 3,439,673 thousand; 2016: GEL 2,539,513 thousand) or 45% of total customer accounts (2017: 44%; 2016: 39%).

As of 31 December 2018 included in customer accounts are deposits of GEL 6,766 thousand and GEL 158,306 thousand (2017: GEL 11,040 thousand and GEL 120,406 thousand; 2016: GEL 13,355 thousand and GEL 119,146 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 37. As of 31 December 2018, deposits held as collateral for loans to customers amounted to GEL 270,787 thousand (2017: GEL 224,899 thousand; 2016: GEL 342,365 thousand).

Refer to Note 41 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 43.

20 DEBT SECURITIES IN ISSUE

In thousands of GEL	**Currency**	**Carrying amount in GEL as of 31 December 2018**	**Maturity Date**	**Coupon rate**	**Effective interest rate**
Bonds issued on Georgian market	**USD**	**7,927**	**22-Jul-19**	**7.3%**	**8.1%**
Bonds issued on Georgian market	**USD**	**5,416**	**16-May-19**	**8.0%**	**8.7%**
Total debt securities in issue		**13,343**			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2017	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	7,834	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,224	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,637	22-Jul-19	7.3%	8.1%
Total debt securities in issue		20,695			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2016	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	5,312	3-Sep-17	8.4%	9.2%
Bonds issued on Georgian market	USD	5,237	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,198	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,761	22-Jul-19	7.3%	8.1%
Total debt securities in issue		23,508			

Refer to Note 41 for the disclosure of the fair value of debt securities in issue.

21 PROVISIONS FOR PERFORMANCE GUARANTEES, CREDIT RELATED COMMITMENTS AND LIABILITIES AND CHARGES

Movements in credit loss allowance for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount as of 1 January 2016	1,472	5,589	2,400	9,461
Charges less releases recorded in profit or loss	(452)	1,223	2,210	2,981
Assuming guarantees following asset purchase	909	-	-	909
Additions through Business Combinations	706	1,237	-	1,943
Carrying amount as of 31 December 2016	2,635	8,049	4,610	15,294
Charges less releases recorded in profit or loss	(579)	190	(2,495)	(2,884)
Assuming guarantees following asset purchase	-	-	(2,115)	(2,115)
Additions through Business Combinations	11	-	-	11
Carrying amount as of 31 December 2017	**2,067**	**8,239**	**-**	**10,306**
IFRS 9 transition effect	**684**	**(4,661)**	**-**	**(3,977)**
Carrying amount as of 1 January 2018	**2,751**	**3,578**	**-**	**6,329**
Charges less releases recorded in profit or loss	**1,640**	**1,846**	**4,000**	**7,486**
Effect of translation to presentation currency	**2**	**-**	**-**	**2**
Carrying amount as of 31 December 2018	**4,393**	**5,424**	**4,000**	**13,817**

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

For letter of credits and guarantees allowance estimation purposes the Bank applies the staged approach and classifies them in stage 1, stage 2 or stage 3. Significant stage 3 guarantees are assessed individually. Non-significant stage 3 as well as all stage 1 and stage 2 guarantees and letter of credits are assessed collectively using exposure, marginal probability of conversion, loss given default and discount factor. Amount of the expected allowance differs based on the classification of the facility in the respective stage.

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

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

For the purpose of ECL measurement other guarantees balances are included in mainly Stage 1 or Stage 2. Refer to Note 35 for the ECL measurement approach.

22 OTHER FINANCIAL LIABILITIES

Other financial liabilities of the Group comprise the following:

In thousands of GEL	Note	2018	2017	2016
Trade payables		**24,270**	31,497	16,612
Security deposits for finance lease		**22,100**	20,647	8,241
Debit or credit card payables		**19,146**	10,567	12,066
Derivative financial liabilities	40	**2,064**	575	1,298
Other accrued liabilities		**10,625**	16,488	11,936
Total other financial liabilities		**78,205**	79,774	50,153

22 OTHER FINANCIAL LIABILITIES CONTINUED

Other financial liabilities of the Bank comprise the following:

In thousands of GEL	Note	2018	2017	2016
Trade payables		**12,437**	7,711	3,705
Security deposits for finance lease		**-**	-	-
Debit or credit card payables		**19,939**	11,383	12,155
Derivative financial liabilities	40	**2,064**	575	1,298
Other accrued liabilities		**10,907**	15,844	4,193
Total other financial liabilities		**45,347**	35,513	21,351

Refer to Note 41 for disclosure of the fair value of other financial liabilities.

23 OTHER LIABILITIES

Other liabilities comprise the following:

In thousands of GEL	2018	2017	2016
Accrued employee benefit costs	**48,116**	42,500	38,317
Taxes payable other than on income	**19,624**	14,145	16,723
Advances received	**10,867**	10,350	6,256
Other	**7,689**	3,192	1,555
Total other financial liabilities	**86,296**	70,187	62,851

All of the above liabilities are expected to be settled within twelve months after the year-end.

24 SUBORDINATED DEBT

As of 31 December 2018, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	**26-Jun-13**	**15-Jun-20**	**USD**	**7,509**	**20,100**
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	**19-Dec-13**	**15-Apr-23**	**USD**	**29,213**	**78,191**
Kreditanstalt für Wiederaufbau Bankengruppe	**10-Jun-14**	**8-May-21**	**GEL**	**6,161**	**6,161**
Kreditanstalt für Wiederaufbau Bankengruppe	**4-May-15**	**8-May-21**	**GEL**	**6,737**	**6,737**
Green for Growth Fund	**18-Dec-15**	**18-Dec-25**	**USD**	**15,312**	**40,983**
European Fund for Southeast Europe	**18-Dec-15**	**18-Dec-25**	**USD**	**7,666**	**20,520**
European Fund for Southeast Europe	**15-Mar-16**	**15-Mar-26**	**USD**	**7,665**	**20,516**
Asian Developement Bank (ADB)	**18-Oct-16**	**18-Oct-26**	**USD**	**50,617**	**135,482**
Private lenders	**30-Jun-17**	**30-Jun-23**	**USD**	**25,218**	**67,497**
Subordinated Bond	**17-Aug-18**	**30-Nov-22**	**USD**	**10,109**	**27,057**
Global climat partnership fund	**20-Nov-18**	**20-Nov-28**	**USD**	**25,111**	**67,211**
Responsibility SICAV (Lux) Microfinance Leaders	**30-Nov-18**	**30-Nov-28**	**USD**	**1,007**	**2,695**
Responsibility SICAV (Lux) Financial inclusion fund	**30-Nov-18**	**30-Nov-28**	**USD**	**3,121**	**8,354**
Responsibility Micro and SME finance fund	**30-Nov-18**	**30-Nov-28**	**USD**	**5,943**	**15,906**
BlueOrchard Microfinance Fund	**14-Dec-18**	**14-Dec-25**	**USD**	**14,916**	**39,923**
BlueOrchard Microfinance Fund	**14-Dec-18**	**14-Dec-28**	**USD**	**14,915**	**39,923**
European Fund for Southeast Europe	**21-Dec-18**	**21-Dec-28**	**USD**	**20,049**	**53,663**
Total subordinated debt					**650,919**

24 SUBORDINATED DEBT CONTINUED

As of 31 December 2017, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,467	27,134
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,496	19,430
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,577	92,222
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,161	6,161
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,259	39,554
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,640	19,805
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,639	19,802
Asian Developement Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,467	130,822
Private lenders	30-Jun-17	30-Jun-23	USD	24,114	62,508
LC Opportunity fund(Thales)	14-Jul-17	5-Dec-18	USD	1,008	2,613
Total subordinated debt					426,788

As of 31 December 2016, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,446	27,649
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,480	19,799
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,474	93,891
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,737	6,737
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	15,239	40,335
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,631	20,197
European Fund for Southeast Europe	15-Mar-16	15-Mar-26	USD	7,629	20,194
Asian Developement Bank (ADB)	18-Oct-16	18-Oct-26	USD	50,407	133,417
Total subordinated debt					368,381

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

Refer to Note 41 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 43.

25 SHARE CAPITAL

As of 31 December 2018 the total authorised number of ordinary shares was 52,539,769 shares (31 December 2017: 52,539,769 shares; 31 December 2016: 52,539,015 shares). Each share has a nominal value of GEL 0.4 (31 December 2017: GEL 0.4 per share; 31 December 2016: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
As of 1 January 2016	49,529,463	19,811	413,645	433,456
Registering shares in the name of employees under share based payment arrangement	525,456	210	12,004	12,214
Shares repurchased and cancelled	(94,553)	(38)	(3,457)	(3,495)
New shares issued	2,578,649	1,031	98,969	100,000
As of 31 December 2016	52,539,015	21,014	521,161	542,175
New shares issued	754	0.3	29	29
As of 31 December 2017	**52,539,769**	**21,014**	**521,190**	**542,204**
As of 31 December 2018	**52,539,769**	**21,014**	**521,190**	**542,204**

On 31 May 2018, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.82 per share, based on the 2017 audited financial statements. The dividend was recorded on 31 May 2018 and on 5 June 2018 shareholders received the payment of the total GEL 95,626 thousand dividends.

On 7 June 2017, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.49 per share, based on the 2016 audited financial statements. The dividend was recorded on 12 June 2017 and on 14 June 2017 shareholders received the payment of the total GEL 78,284 thousand dividends.

On 25 April 2016, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.09 per share, based on the 2015 audited financial statements. The dividend was recorded on 3 May 2016 and on 11 May 2016 shareholders received the payment of the total GEL 54,560 thousand dividends.

26 SHARE BASED PAYMENTS

June 2013 arrangement: In June 2013, the Bank's Supervisory Board approved a new management compensation scheme for the years 2013 – 2015 and authorised a maximum of 4,150 new shares to be issued in accordance with the scheme. The authorized number of new shares has increased to 1,037,500 in order to reflect the share split 250-for-1 approved by the shareholders on 4 March 2014. According to the scheme, each year, (subject to predefined performance conditions) a certain number of shares were awarded to the top management and some of the middle managers of the Group.

The performance evaluation is divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded (legally transferred) depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the award date. The team goals primarily focus on meeting the target for growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achieving the team goals. Individual performance indicators are defined on an individual basis and are used to calculate the number of shares to be awarded to each employee out of the total bonus pool. Once awarded, these shares carry service conditions and, before those conditions are met, are eligible to dividends. However, they do not carry voting rights and cannot be sold or transferred to third parties. Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2013, 2014 and 2015 tranche gradually ran over on the second, third, and fourth year following the performance appraisal. Eighty per cent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to June 2019.

Under the new management compensation scheme, both shareholders and Supervisory Board hold put options on the shares to be awarded. In addition, they both hold put options on all bonus shares awarded under the previous share-based payment arrangements. All the put-options became null and void upon the listing on the LSE in June 2014. At no point of the operation of the share-based payment scheme did the management expect the put-options to be exercised. Consequently, the scheme was accounted for as equity-settled scheme and no obligation was recognized for the put-options.

26 SHARE BASED PAYMENTS CONTINUED

In 2013 the Group considered 20 June as the grant date. Based on the management's expectation of performance and service conditions, 732,000 shares have been granted and will be gradually awarded to the members of the described scheme. An external evaluator assessed the fair value per share at the grant date at GEL 13.93 adjusted for the effect of 250-for-1 share split Income and market approaches were applied for the evaluation. The market approach involved an estimate of the market capitalization to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose lenders operating in the Black Sea region and Central and Eastern Europe with a portfolio mix and growth priorities similar to TBC Bank. The income approach involved discounting free cash flows to equity estimated over a 10-year horizon. When developing the projections, the following major assumptions were made:

- Over the 2013-2023 periods, the compound annual growth rate was assumed at 15.2% for loans and at 15.1% for customer accounts.
- The spread on the Bank's customer business was assumed to gradually decline from an estimated 10.2% in 2013 to stabilize at 5.8% by 2021.
- Over 2013-2023 period, non-interest income was forecast to average 1.8% of customer volume (i.e. gross loans and deposits).
- Year-on-year growth in various components of employee's compensation was assumed at 37.6%-56.0% in 2014, 2.4%-9.8% in 2015 and was then assumed to gradually decline to 2.1%-3.6% in 2023. Year-on-year growth in administrative expenses was assumed at 38.3% in 2014, 10.4% in 2015 and to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using the Gordon growth model, applying US long-term inflation forecast (2.1%) as the Bank's terminal cash flows growth rate.
- Bank's cost of equity was estimated at 15.10%.

The final valuation was based on the income approach and the market one was used to check the results obtained by the former. The calculated value of Bank's equity was then divided by the number of ordinary shares issued as of date and further reduced with the discount for lack of control.

June 2015 arrangement: In June 2015, the Bank's Supervisory Board approved new management compensation scheme for the top and middle management and it accordingly authorised the issue of a maximum 3,115,890 new shares. The new system will be enforced from 2015 through 2018, replacing the system introduced in June 2013 -- the performance evaluation as well as the respective compensation for 2015 year-end results will be paid under the new system. According to the scheme, each year, subject to predefined performance conditions, a certain number of shares will be awarded to the Group's top managers and most of the middle ones. The performance features key performance indicators (KPIs) divided into (i) corporate and (ii) individual. The corporate KPIs are mainly related to achieving profitability, efficiency, and portfolio quality metrics set by the Supervisory Board as well as non-financial indicators with regards to customers' experience and employees' engagement. The individual performance indicators are set on an individual basis and are used to calculate the number of shares to be awarded to each employee. According to the scheme, members of top management will also receive the fixed number of shares. Once awarded, all shares carry service conditions and, before those conditions are met, are eligible to dividends; however they do not carry voting rights and cannot be sold or transferred to third parties.

Service conditions foresee continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares for each of the 2015, 2016, 2017 and 2018 tranche gradually ran over on the second, third and fourth year following the performance appraisal. Eighty percent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to March 2022.

In 2015 the Group considered 17 June as the grant date. Based on the management's estimate of reached targets, as of 31 December 2015 1,908,960 shares were granted. The shares will be gradually awarded to the members as per the described scheme. At the grant date the fair value amounted to GEL 24.64 per share, as quoted on the London Stock Exchange.

Following the listing on the Premium segment of the London Stock Exchange, the share-based payment scheme was updated, and TBC Bank Group PLC distributes its shares to the scheme's participants. The shares' value is recharged to the JSC TBC Bank. As a result, the accounting of the scheme did not change in the consolidated financial statements.

26 SHARE BASED PAYMENTS CONTINUED

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries, which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In thousands of GEL except for number of shares	**31 December 2018**	31 December 2017	31 December 2016
Number of unvested shares at the beginning of the period	**2,284,773**	2,622,707	2,756,605
Number of shares granted	**-**	-	-
Change in estimate of number of shares expected to vest based on performance conditions	**166,377**	(13,100)	(11,904)
Forfeited during the period	**-**	-	(35,146)
Number of shares vested	**(330,021)**	(324,834)	(86,848)
Number of unvested shares at the end of the period	**2,121,129**	2,284,773	2,622,707
Value at grant date per share (GEL) old remuneration system	**13.93**	13.93	13.93
Value at grant date per share (GEL) new remuneration system	**24.64**	24.64	24.64
Expense on equity-settled part (GEL thousand)	**11,691**	10,543	12,599
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	**-**	-	(817)
Expense on cash-settled part (GEL thousand)	**8,401**	5,119	10,271
Expense recognised as staff cost during the period (GEL thousand)	**20,092**	15,662	22,053

Liability in respect of the cash-settled part of the award amounted to GEL 11,001 thousand as of 31 December 2018 (2017: GEL 12,675 thousand; 2016: GEL 13,725 thousand).

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

On 31 December 2018 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system and increased estimated number of shares to vest by 166,377 (31 December 2017: decreased by 13,100 shares; 31 December 2016: decreased by 11,904 shares).

27 SEGMENT ANALYSIS

The Management Board (the "Board) is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. In 2018 the Group has reassessed its definition of segments as disclosed in this note. Some of the clients were reallocated to different segments. GEL 236 million was transferred from Retail to MSME segment and GEL 66 million was transferred from MSME to Corporate segment. Comparative information as of 31 December 2017 and 2016 has not been updated due to impracticability.

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

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

The operating segments during the year 2017 were as follows:

- Corporate – all business customers with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other business customers may also be assigned to the Corporate segment on a discretionary basis;
- Micro, small and medium enterprises – all business customers who are not included in Corporate segment; Some other customers may also be assigned to the MSME segment on a discretionary basis;
- Retail – all individual customers not included in the other categories;
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

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

The reportable segments are the same as the operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018, 2017 or 2016.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 35.

Allocation is performed based on drivers identified for each type of cost if possible. If there is no identifiable driver for any type of expense/overhead cost, those expenses are allocated between segments based on the same logic as applied for the most related expenses to it (e.g. other operating expenses would follow the pattern of closest category of operating expenses).

27 SEGMENT ANALYSIS CONTINUED

A summary of the Group's reportable segments for the years ended 31 December 2018, 2017 and 2016 is provided below:

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2018					
- Interest income	264,559	609,989	255,833	152,832	1,283,213
- interest expense	(138,840)	(123,729)	(9,710)	(240,376)	(512,655)
- Inter-segment interest income(expense)	35,531	(78,453)	(83,475)	126,397	-
- Net interest income	161,250	407,807	162,648	38,853	770,558
- Fee and commission income	40,663	170,082	22,498	1,383	234,626
- Fee and commission expense	(6,624)	(64,270)	(6,861)	(379)	(78,134)
- Net Fee and commission income	34,039	105,812	15,637	1,004	156,492
- Net gains from trading in foreign currencies	44,629	28,811	22,002	(3,764)	91,678
- Net gains from foreign exchange translation	-	-	-	15,503	15,503
- Net losses from derivative financial instruments	-	(223)	-	19	(204)
- Net losses from disposal of investment securities measured at fair value through other comprehensive income	-	-	-	2	2
- Other operating income	19,691	8,658	748	1,809	30,906
- Share of profit of associates	-	-	-	1,154	1,154
- Other operating non-interest income	64,320	37,246	22,750	14,723	139,039
- Credit loss allowance for loans to customers	(9,826)	(118,043)	(15,854)	-	(143,723)
- Credit loss allowance for performance guarantees and credit related commitments	(2,826)	(412)	(248)	-	(3,486)
- Credit loss allowance for investments in finance lease	-	-	-	(1,765)	(1,765)
- Credit loss allowance for other financial assets	(8,634)	(3,959)	(2)	(3,851)	(16,446)
- Credit loss allowance for financial assets measured at fair value through OCI	(95)	-	-	9	(86)
- Profit before administrative and other expenses and income taxes	238,228	428,451	184,931	48,973	900,583
- Staff costs	(29,145)	(127,299)	(42,669)	(13,356)	(212,469)
- Depreciation and amortisation	(2,226)	(36,745)	(4,981)	(1,326)	(45,278)
- Provision for liabilities and charges	-	-	-	(4,000)	(4,000)
- Administrative and other operating expenses	(10,939)	(87,846)	(20,110)	(15,290)	(134,185)
- Operating expenses	(42,310)	(251,890)	(67,760)	(33,972)	(395,932)
- Profit before tax	195,918	176,561	117,171	15,001	504,651
- Income tax expense	(29,907)	(22,898)	(17,249)	(1,297)	(71,351)
- Profit for the year	166,011	153,663	99,922	13,704	433,300
Total gross loans and advances to customers reported	3,177,289	4,698,699	2,496,594	-	10,372,582
Total customer accounts reported	3,323,257	5,103,971	1,017,518	-	9,444,746
Total credit related commitments and performance guarantees	1,578,218	246,639	246,825	-	2,071,682

27 SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2017					
- Interest income	203,082	535,851	184,008	110,768	1,033,709
- interest expense	(104,792)	(118,516)	(11,661)	(197,173)	(432,142)
- Inter-segment interest income (expense)	22,489	(73,141)	(51,488)	102,140	-
- Net interest income	120,779	344,194	120,859	15,735	601,567
- Fee and commission income	30,426	140,582	20,335	1,409	192,752
- Fee and commission expense	(6,910)	(51,199)	(8,949)	(893)	(67,951)
- Net Fee and commission income	23,516	89,383	11,386	516	124,801
- Net gains from trading in foreign currencies	38,885	22,597	26,885	(1,268)	87,099
- Net losses from foreign exchange translation	-	-	-	4,595	4,595
- Net losses from derivative financial instruments	-	-	-	(36)	(36)
- Net gains from disposal of available for sale investment securities	-	-	-	93	93
- Other operating income	13,465	12,670	1,726	3,650	31,511
- Share of profit of associates	-	-	-	909	909
- Other operating non-interest income	52,350	35,267	28,611	7,943	124,171
- Provision for loan impairment	27,031	(106,579)	(14,275)	-	(93,823)
- Provision for performance guarantees and credit related commitments	184	(261)	467	-	390
- Provision for impairment of investments in finance lease	-	-	-	(492)	(492)
- Provision for impairment of other financial assets	(7,666)	(17)	(64)	(4,465)	(12,212)
- Impairment of investment securities available for sale	-	-	-	-	-
- Profit before administrative and other expenses and income taxes	216,194	361,987	146,984	19,237	744,402
- Staff costs	(25,989)	(128,331)	(31,225)	(11,281)	(196,826)
- Depreciation and amortisation	(1,438)	(29,813)	(4,972)	(659)	(36,882)
- Provision for liabilities and charges	-	-	-	2,495	2,495
- Administrative and other operating expenses	(7,457)	(81,356)	(15,118)	(11,815)	(115,746)
- Operating expenses	(34,884)	(239,500)	(51,315)	(21,260)	(346,959)
- Profit before tax	181,310	122,487	95,669	(2,023)	397,443
- Income tax expense	(27,738)	(15,527)	(13,820)	22,423	(34,662)
- Profit for the year	153,572	106,960	81,849	20,400	362,781
Total gross loans and advances to customers reported	2,475,392	4,233,153	1,844,672	-	8,553,217
Total customer accounts reported	2,429,368	4,378,265	1,027,690	-	7,835,323
Total credit related commitments and performance guarantees	1,160,531	229,178	199,662	-	1,589,371

27 SEGMENT ANALYSIS CONTINUED

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2016					
- Interest income	161,030	386,193	141,533	77,654	766,410
- interest expense	(45,205)	(101,521)	(8,114)	(122,282)	(277,122)
- Inter-segment interest income (expense)	(22,186)	(34,056)	(36,752)	92,994	-
- Net interest income	93,639	250,616	96,667	48,366	489,288
- Fee and commission income	21,884	100,637	16,331	3,950	142,802
- Fee and commission expense	(3,977)	(42,905)	(4,689)	(539)	(52,110)
- Net Fee and commission income	17,907	57,732	11,642	3,411	90,692
- Net gains from trading in foreign currencies	23,945	17,817	26,271	2,126	70,159
- Net losses from foreign exchange translation	-	-	-	(2,528)	(2,528)
- Net losses from derivative financial instruments	-	-	-	(206)	(206)
- Net gains from disposal of available for sale investment securities	-	-	-	9,293	9,293
- Other operating income	9,837	5,772	1,076	6,529	23,214
- Other operating non-interest income	33,782	23,589	27,347	15,214	99,932
- Provision for loan impairment	48,948	(73,010)	(25,140)	-	(49,202)
- Provision for performance guarantees and credit related commitments	(388)	(902)	519	-	(771)
- Provision for impairment of investments in finance lease	-	-	-	(558)	(558)
- Provision for impairment of other financial assets	(863)	(207)	(38)	(1,461)	(2,569)
- Impairment of investment securities available for sale	-	-	(11)	-	(11)
- Profit before administrative and other expenses and income taxes	193,025	257,818	110,986	64,972	626,801
- Staff costs	(23,068)	(100,888)	(28,188)	(19,160)	(171,304)
- Depreciation and amortisation	(1,062)	(21,560)	(3,507)	(1,851)	(27,980)
- Provision for liabilities and charges	-	-	-	(2,210)	(2,210)
- Administrative and other operating expenses	(5,944)	(59,365)	(12,793)	(30,099)	(108,201)
- Operating expenses	(30,074)	(181,813)	(44,488)	(53,320)	(309,695)
- Profit before tax	162,951	76,005	66,498	11,652	317,106
- Income tax expense	(24,513)	(7,406)	(10,325)	24,823	(17,421)
- Profit for the year	138,438	68,599	56,173	36,475	299,685
Total gross loans and advances to customers reported	2,062,229	3,680,576	1,615,920	-	7,358,725
Total customer accounts reported	1,882,210	3,747,774	831,598	-	6,461,582
Total credit related commitments and performance guarantees	802,971	188,574	155,275	-	1,146,820

27 SEGMENT ANALYSIS CONTINUED

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

In thousands of GEL	**31 December 2018**	31 December 2017	31 December 2016
Total segment assets (gross loans and advances to customers)	**10,372,582**	8,553,217	7,358,725
Credit loss allowance (provision for loan impairment for comparatives)	**(334,130)**	(227,864)	(225,023)
Cash and cash equivalents	**1,164,403**	1,428,771	944,767
Mandatory cash balances with National Bank of Georgia	**1,422,809**	1,033,818	990,642
Due from other banks	**37,384**	37,789	23,824
Investment securities measured at fair value through other comprehensive income	**1,005,239**	-	-
Investment securities available for sale	**-**	657,938	430,703
Bonds carried at amortised cost	**653,703**	449,538	372,956
Current income tax prepayment	**2,159**	19,084	7,429
Deferred income tax asset	**1,992**	2,605	3,265
Other financial assets	**154,259**	134,135	91,895
Investments in finance leases	**203,802**	143,836	95,031
Other assets	**177,923**	147,792	170,756
Premises and equipment	**366,071**	366,065	313,584
Intangible assets	**108,505**	83,072	60,698
Investment properties	**84,296**	79,232	95,615
Goodwill	**29,459**	26,892	26,892
Investments in Subsidiaries and Associates	**2,432**	1,278	-
Total assets per statement of financial position	**15,452,888**	12,937,198	10,761,759

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

In thousands of GEL	**31 December 2018**	31 December 2017	31 December 2016
Total segment liabilities (customer accounts)	**9,444,746**	7,835,323	6,461,582
Due to credit institutions	**3,031,505**	2,644,714	2,199,976
Debt securities in issue	**13,343**	20,695	23,508
Current income tax liability	**63**	447	2,579
Deferred income tax liability	**22,237**	602	5,646
Provisions for liabilities and charges	**13,817**	10,306	15,294
Other financial liabilities	**78,205**	79,774	50,153
Other liabilities	**86,296**	70,187	62,851
Subordinated debt	**650,919**	426,788	368,381
Total liabilities per statement of financial position	**13,341,131**	11,088,836	9,189,970

In thousands of GEL	**Corporate**	**Retail**	**Micro, small and medium enterprises**	**Corporate centre and other operations**	**Total**
31 December 2018					
- Fee and commission income	**40,663**	**170,082**	**22,498**	**1,383**	**234,626**
- Other operating income	**19,691**	**8,658**	**748**	**1,809**	**30,906**
Total	**60,354**	**178,740**	**23,246**	**3,192**	**265,532**
Timing of revenue recognition:					
- At point in time	**56,393**	**160,555**	**22,950**	**3,187**	**243,085**
- Over time	**3,961**	**18,185**	**296**	**5**	**22,447**

28 INTEREST INCOME AND EXPENSE

In thousands of GEL	**2018**	2017	2016
Interest income calculated using effective interest method			
Loans and advances to customers	**1,123,972**	919,796	688,756
Bonds carried at amortised cost	**40,625**	32,328	30,714
Investment securities available for sale	**-**	43,735	25,707
Investment securities measured at fair value through OCI	**57,057**	-	-
Due from other banks	**22,722**	14,577	4,502
Other interest income			
Investments in leases	**38,837**	23,273	16,566
Other	**-**	-	165
Total interest income	**1,283,213**	1,033,709	766,410
Interest expense			
Customer accounts	**272,279**	234,969	154,840
Due to credit institutions	**197,403**	158,255	86,179
Subordinated debt	**41,571**	36,975	34,325
Debt securities in issue	**1,402**	1,943	1,778
Total interest expense	**512,655**	432,142	277,122
Net interest income	**770,558**	601,567	489,288

As of 31 December 2018 GEL 1,244,451 thousand of interest income and GEL 502,331 thousand of interest expense were attributable to the Bank (2017: GEL 947,126 thousand and GEL 401,955 thousand, 2016: GEL 701,276 thousand and GEL 255,633).

In the year ended 31 December 2018 the interest accrued on impaired loans amounted to GEL 41,373 thousand (2017: GEL 16,332 thousand; 2016: GEL 23,825 thousand).

29 FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense of the Group are as follows:

In thousands of GEL	**2018**	2017	2016
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**106,067**	82,525	61,115
- Settlement transactions	**70,718**	59,730	43,436
- Guarantees issued	**19,814**	15,121	11,699
- Cash transactions	**17,147**	17,424	13,013
- Issuance of letters of credit	**6,463**	5,735	6,215
- Foreign exchange operations	**2,183**	1,339	1,277
- Other	**12,234**	10,878	6,047
Total fee and commission income	**234,626**	192,752	142,802
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**55,893**	46,360	34,906
- Settlement transactions	**8,654**	7,400	5,795
- Cash transactions	**5,180**	4,393	2,633
- Guarantees received	**2,863**	2,873	2,420
- Self-service and POS terminal transactions	**34**	6,436	4,692
- Other	**5,510**	489	1,664
Total fee and commission expense	**78,134**	67,951	52,110
Net fee and commission income	**156,492**	124,801	90,692

29 FEE AND COMMISSION INCOME AND EXPENSE CONTINUED

Fee and commission income and expense of the Bank are as follows:

In thousands of GEL	**2018**	2017	2016
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**102,802**	78,690	57,553
- Settlement transactions	**45,676**	34,620	24,691
- Guarantees issued	**19,815**	14,188	10,982
- Cash transactions	**18,585**	18,615	14,108
- Issuance of letters of credit	**6,497**	5,556	6,113
- Foreign exchange operations	**2,186**	1,324	1,230
- Other	**10,994**	10,511	5,820
Total fee and commission income	**206,555**	163,504	120,497
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	**63,190**	51,848	41,399
- Settlement transactions	**8,312**	7,193	5,652
- Cash transactions	**13,724**	9,958	4,904
- Guarantees received	**2,863**	2,765	2,292
- Self-service and POS terminal transactions	**-**	-	-
- Other	**680**	171	403
Total fee and commission expense	**88,769**	71,935	54,650
Net fee and commission income	**117,786**	91,569	65,847

30 OTHER OPERATING INCOME

In thousands of GEL	**2018**	2017	2016
Gain from sale of investment properties	**9,781**	4,353	2,623
Revenues from operational leasing	**6,544**	6,559	5,772
Warrant option	**2,677**	-	-
Gain from sale of inventories of repossessed collateral	**2,577**	2,383	2,382
Revenues from sale of cash-in terminals	**1,715**	1,093	1,100
Revenues from non-credit related fines	**487**	1,333	644
Gain on disposal of premises and equipment	**352**	1,017	208
Gain from sale of receivables	**225**	4,090	58
Reimbursement of taxes	**-**	2,486	349
Gain from marketing promotional services	**-**	2,077	-
Dividend Income	**-**	-	823
Recovery from repayment of purchased impaired loans	**-**	-	4,995
Administrative fee income from international financial institutions	**-**	-	644
Other	**6,548**	6,120	3,616
Total other operating income	**30,906**	31,511	23,214

Revenue from operational leasing is wholly attributable to investment properties. The carrying value of the inventories of repossessed collateral disposed in the year ended 31 December 2018 was GEL 33,295 thousand for the Group and the Bank (2017: GEL 24,284 thousand 2016: GEL 26,972 thousand).

31 STAFF COSTS

Staff costs of the Group are as follows:

In thousands of GEL	**2018**	2017	2016
Salaries and bonuses	**183,822**	176,510	145,926
Share based compensation	**20,092**	15,662	22,053
Other compensation cost	**8,555**	4,654	3,325
Salaries and other employee benefits	**212,469**	196,826	171,304

Staff costs of the Bank are as follows:

In thousands of GEL	**2018**	2017	2016
Salaries and bonuses	**166,356**	153,575	125,033
Share based compensation	**19,973**	15,662	22,053
Other compensation cost	**7,687**	3,882	2,473
Salaries and other employee benefits	**194,016**	173,119	149,559

In 2018 the average monthly total number of persons employed by the Group and by the Bank was 7,002 and 6,412 people respectively (2017: 6,883 and 5,958; 2016: 5,520 and 4,788).

32 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Administrative and other operating expenses of the Group are as follows:

In thousands of GEL	**2018**	2017	2016
Advertising and marketing services	**28,770**	18,021	13,784
Rent	**23,738**	22,700	18,233
Intangible asset enhancement	**11,366**	10,304	7,446
Professional services	**10,585**	12,162	29,030
Insurance	**7,659**	3,270	2,686
Taxes other than on income	**6,686**	5,607	4,699
Utility services	**6,486**	6,057	5,104
Premises and equipment maintenance	**5,773**	5,253	3,880
Communications and supply	**5,030**	4,063	4,183
Stationery and other office expenses	**4,636**	4,737	3,429
Security services	**2,040**	1,965	1,883
Business trip expenses	**2,005**	1,897	1,880
Transportation and vehicle maintenance	**1,988**	1,637	1,386
Personnel training and recruitment	**1,809**	1,444	1,272
Charity	**1,074**	1,045	884
Loss on disposal of premises and equipment	**860**	492	423
Loss on disposal of inventories	**137**	1,239	1,690
Impairment of intangible assets	**-**	1,916	2,043
Reversal of previously written-down current assets to fair value less costs to sell	**(1,026)**	(538)	(4,424)
Other	**14,569**	12,475	8,690
Total administrative and other operating expenses	**134,185**	115,746	108,201

32 ADMINISTRATIVE AND OTHER OPERATING EXPENSES CONTINUED

Administrative and other operating expenses of the Bank are as follows:

In thousands of GEL	**2018**	2017	2016
Advertising and marketing services	**27,885**	17,468	13,060
Rent	**19,822**	17,462	14,128
Intangible asset enhancement	**9,932**	8,630	5,939
Professional services	**9,203**	10,368	27,543
Insurance	**3,884**	989	933
Taxes other than on income	**3,757**	3,406	2,957
Utility services	**6,280**	5,610	4,772
Premises and equipment maintenance	**6,891**	5,868	4,423
Communications and supply	**4,312**	3,500	2,600
Stationery and other office expenses	**4,403**	4,348	3,092
Security services	**1,916**	1,803	1,687
Business trip expenses	**1,878**	1,753	1,699
Transportation and vehicle maintenance	**770**	898	751
Personnel training and recruitment	**1,710**	1,074	1,111
Charity	**1,012**	989	790
Loss on disposal of premises and equipment	**806**	276	365
Loss on disposal of inventories	**108**	1,020	1,243
Impairment of intangible assets	**-**	1,916	-
Reversal of previously written-down current assets to fair value less costs to sell	**(1,593)**	(540)	(4,819)
Other	**9,484**	6,954	5,369
Total administrative and other operating expenses	**112,460**	93,792	87,643

Auditors' remuneration is included within professional services expenses above and comprises:

In thousands of GEL	**Audit**	**Audit Related**	**Other Services**	**Total**
2018				
Audit of TBC Bank Group and subsidiaries annual financial statements	**1,482**	**-**	**-**	**1482**
Review of TBC Bank Group and subsidiaries interim financial statements	**-**	**260**	**-**	**260**
Other assurance services	**-**	**-**	**114**	**114**
Total auditor's remuneration	**1,482**	**260**	**114**	**1,856**
2017				
Audit of TBC Bank Group and subsidiaries annual financial statements	924	-	-	924
Review of TBC Bank Group and subsidiaries interim financial statements	-	251	-	251
Other assurance services	-	-	173	173
Total auditor's remuneration	924	251	173	1,348
2016				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,588	-	-	1,588
Review of TBC Bank Group and subsidiaries interim financial statements	-	360	-	360
Other assurance services	-	5	5,432	5,437
Total auditor's remuneration	1,588	365	5,432	7,385

Included in Other assurance services as of 31 December 2016, GEL 3,797 thousands is attributable to reporting accountant fees related to listing of TBCG shared on LSE.

33 INCOME TAXES

Income tax expenses comprises of the following:

In thousands of GEL	**2018**	2017	2016
Current tax charge	**51,500**	39,225	36,601
Deferred tax (credit)/charge	**19,851**	(4,563)	(19,180)
Income tax expense for the year	**71,351**	34,662	17,421

The income tax rate applicable to the majority of the Group's income was 15% (2017: 15%; 2016: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2017: 15% - 20%; 2016: 15% - 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	**2018**	2017	2016
Profit before tax	**504,651**	397,443	317,106
Theoretical tax charge at statutory rate (2018: 15%; 2017: 15%, 2016: 15%)	**75,828**	59,718	46,917
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	**(17,611)**	(13,645)	(9,638)
- Non-deductible expenses	**(746)**	(117)	3,492
- Effect of change in tax legislation	**13,833**	(11,794)	(24,204)
- Other differences	**47**	500	854
Income tax expense for the year	**71,351**	34,662	17,421

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2017: 15%, 2016: 15%) for Georgia and 20% for Azerbaijan (2017: 20%, 2016: 20%).

On 13 May 2016 the Government of Georgia enacted the changes in the Tax Code of Georgia effective from 1 January 2019, for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops and from 1 January 2017 for other entities. However, during 2018 Georgian Government changed transition date to 1 January 2023.The new code impacts the recognition and measurement principles of the Group's income tax and it also affects the Group's deferred income tax assets/liabilities. Companies do not have to pay income tax on their profit before tax (earned since 1 January 2017 or 1 January 2023 for commercial banks, credit unions, insurance organizations, microfinance organizations and pawnshops) until that profit is distributed in a form of dividend or other forms of profit distributions. Once dividend is paid, 15% income tax is payable at the moment of the dividend payment, regardless of whether in monetary or non-monetary form, to the foreign non-resident legal entities and foreign and domestic individuals. The dividends paid out to the resident legal entities are tax exempted. Apart from dividends' distribution, the tax is still payable on expenses or other payments incurred not related to economic activities, free delivery of goods/services and/or transfer of funds and representation costs that exceed the maximum amount determined by the Income Tax Code of Georgia, in the same month they are incurred.

33 INCOME TAXES CONTINUED

In thousands of GEL	31 December 2017	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2018
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(4,298)	(16,460)	(2,443)	(23,201)
Loan impairment provision	2,401	417	-	2,864
Other financial assets	2,015	302	-	2,317
Other assets	29	(29)	-	-
Investment property	(342)	342	-	-
Due to credit institutions	(816)	(2,825)	-	(3,641)
Subordinated debt	(23)	(47)	-	(70)
Other financial liabilities	(72)	31	-	(41)
Other liabilities	1,652	(788)	-	864
Share based payment	1,486	(823)	-	663
Tax loss carry forwards	(29)	29	-	-
Net deferred tax asset/(liability)	2,003	(19,851)	(2,443)	(20,245)
Recognised deferred tax asset	2,605	(659)	-	1,992
Recognised deferred tax liability	(602)	(19,192)	(2,443)	(22,237)
Net deferred tax asset/(liability)	2,003	(19,850)	(2,443)	(20,245)

In thousands of GEL	31 December 2016	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2017
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(5,323)	648	377	(4,298)
Loan impairment provision	(91)	2,401	-	2,401
Fair valuation of investment securities available for sale	165	483	(648)	-
Other financial assets	2,122	(107)	-	2,015
Other assets	39	(10)	-	29
Investment in leases	-	-	-	-
Investment property	(982)	640	-	(342)
Due to credit institutions	(1,295)	479	-	(816)
Subordinated debt	(85)	62	-	(23)
Other financial liabilities	197	(269)	-	(72)
Other liabilities	2,225	(573)	-	1,652
Share based payment	676	810	-	1,486
Tax loss carry forwards	(29)	-	-	(29)
Net deferred tax asset/(liability)	(2,381)	4,564	(271)	2,003
Recognised deferred tax asset	3,265	(660)	-	2,605
Recognised deferred tax liability	(5,646)	5,315	(271)	(602)
Net deferred tax asset/(liability)	(2,381)	4,655	(271)	2,003

33 INCOME TAXES CONTINUED

In thousands of GEL	1 January 2016	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	Changes due to the business combination	31 December 2016
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(25,802)	11,112	11,011	(1,644)	(5,323)
Loan impairment provision	(9,167)	11,729	-	(2,574)	(92)
Fair valuation of investment securities available for sale	(1,595)	461	1,565	(266)	165
Other financial assets	5,952	(3,830)	-	-	2,122
Other assets	6,407	(5,734)	-	(634)	39
Investment in leases	(556)	556	-	-	-
Investment property	(4,247)	4,275	-	(1,010)	(982)
Due to credit institutions	(475)	(820)	-	-	(1,295)
Subordinated debt	(327)	242	-	-	(85)
Other financial liabilities	60	137	-	-	197
Other liabilities	1,311	1,146	-	(231)	2,226
Share based payment	741	(65)	-	-	676
Tax loss carry forwards	-	(29)	-	-	(29)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,359)	(2,381)
Recognised deferred tax asset	1,546	1,719	-	-	3,265
Recognised deferred tax liability	(29,244)	17,461	12,576	(6,361)	(5,646)
Net deferred tax asset/(liability)	(27,698)	19,180	12,576	(6,361)	(2,381)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

34 NET DEBT RECONCILIATION

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities			
In thousands of GEL	Other borrowed funds	Debt Securities in Issue	Subordinated debt	Total
Net debt at 1 January 2017	1,882,670	23,508	368,381	2,274,559
Cash flows	541,289	(3,251)	22,837	560,875
Foreign exchange adjustments	(14,398)	(1,505)	(766)	(16,669)
Other non-cash movements	148,935	1,943	36,336	187,214
Net debt at 31 December 2017	**2,558,496**	**20,695**	**426,788**	**3,005,979**
Cash flows	**54,486**	**(9,308)**	**171,781**	**216,959**
Foreign exchange adjustments	**70,883**	**554**	**9,958**	**81,395**
Other non-cash movements	**188,206**	**1,402**	**42,392**	**232,000**
Net debt at 31 December 2018	**2,872,071**	**13,343**	**650,919**	**3,536,333**

35 FINANCIAL AND OTHER RISK MANAGEMENT

TBC Bank Group's strong risk governance reflects the importance placed by the Board and the Group's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organization structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting & supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensures sustainability and resiliency of the business model and positioning of risk management as Group's competitive advantage and strategic enabler.

The TBC Bank Group's governance structure ensures adequate oversight and accountabilities as well as clear segregation of duties. The Risks, Ethics and Compliance Committee is responsible for taking all the day-to-day decisions relating to the Group apart from those that are reserved for the Board. Namely, the committee carries out following duties: 1) Review and assessment of the Group's risk management strategy, risk appetite and tolerance, risk management system and risk policies; 2) Review and monitoring of the processes for compliance with laws, regulations and ethical codes of practice; 3) monitoring of the remediation of internal control deficiencies identified by internal and external auditors around compliance, ethics and risk management functions; 4) Annual self-assessment of the committee's performance and reporting of the results to the Board; 5) Review of the key risk management framework and other policy documents and make recommendations to the Board for their approval.

On the Bank level, risk management is the duty of the Supervisory Board, which has the overall responsibility to set the tone at the top and monitor compliance with established objectives. At the same time, Management Board governs and directs Groups' daily activities.

Both the Supervisory Board and the management Board have established dedicated risk committees. Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. Management Board Risk Committee is established to guide group-wide risk management activities and monitor major risk trends to make sure risk profile complies with the established Risk Appetite of the Group. Operational Risk Committee makes decisions related to operational risk governance while Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The Board, the Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which sets desired risk profile and respective risk limits for different economic environments. Risk Appetite ("RA") establishes monitoring and reporting responsibilities as well as escalation paths for different trigger events and limit breaches which as well prompt risk teams to establish and implement agreed mitigation actions. In order to effectively implement Risk Appetite in the Group's day-to-day operations, the RA metrics are cascaded into more granular business unit level limits. That way risk allocation is established across different segments and activities. The Board level oversight coupled with the permanent involvement of the Senior Management in TBC Group risk management ensures the clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

The daily management of individual risks is based on the principle of the three lines of defense. While business lines are primary risk owners, risk teams assume the function of the second line defense. This role is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees are established at operational levels in charge of making transaction-level decisions that comprise of component of clear and sophisticated delegations of the authority framework based on "four-eye principle". All new products/projects go through the risk teams to assure risks are analyzed comprehensively.

Such control arrangements guarantee that the Bank takes informed risk-taking decisions that are adequately priced, avoiding taking risks that are beyond the Group's established threshold. Within the Risk Organization the below teams manage the credit, liquidity, market, operational and other non-financial risks:

- Enterprise Risk Management (ERM);
- Credit Risk Management;
- Underwriting (Credit sanctioning);
- Restructuring and Collections;
- Financial Risk Management;
- Operational Risk Management.3

The strong and independent structure enables fulfillment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

In addition to the above-mentioned risk teams, the Compliance Department (reporting directly to CEO) is specifically in charge of AML and compliance risk management. As the third line of defense, the Internal Audit Department provides an independent and objective assurance and recommendations to Group that facilitates further improvement of operations and risk management.

For the management of each significant risk, the Bank puts in place specific policies and procedures, governance tools and techniques, methodologies for risk identification, assessment and quantification. Sound risk reporting systems and IT infrastructure are important tools for efficient risk management of TBC Bank. Thus, significant emphasis and investments are made by the Bank to constantly drive the development of required solutions. Comprehensive reporting framework is in place for the Management Board and the Supervisory Board that enables intense oversight over risk developments and taking early remedial actions upon necessity.

Beyond the described risk governance components, compensation system features one of the most significant tools for introducing incentives for staff, aligned with the Bank's long term interests to generate sustainable risk-adjusted returns. The risk Key Performance Indicators ("KPIs") are incorporated into both the business line and the risk staff remunerations. The performance management framework differentiates risk staff incentives to safeguard the independence from business areas that they supervise and at the same time enable attraction and maintenance of qualified professionals. For that purpose, the Bank overweighs risk KPIs for risk and control staff and caps the share of variable remuneration.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Credit risk. The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to note37.

Credit risks include: risks arising from transactions with individual counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with individual counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected borrowers, or loan concentration in certain economic industries
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Group's portfolio
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral

Comprehensive risk management methods and processes are established as part of the Group's risk management framework to manage credit risk effectively. The main principles for Group's credit risk management are: establish a prudent credit risk environment; operate under a sound credit-granting process; and maintain efficient processes for credit risk identification, measurement, control and monitoring. Respective policies and procedures establish a framework for lending decisions reflecting the Group's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Credit Approval. The Group strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The concept of three lines of defense is embedded in the credit risk assessment framework, with a clear segregation of duties among the parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan; whereas smaller retail and micro loans are mostly assessed in an automated way applying respective scoring models for the loan approval. Lending guidelines for business borrowers have been tailored to individual economic sectors, outlining key lending criteria and target ratios within each industry.

The Loan Approval Committees are responsible to review the credit applications and approve the credit products. Different Loan Approval Committees with clearly defined delegation authority are in place for the approval of credit exposures to Corporate, MSME and Retail customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit exposure risks are thoroughly analysed. A loan to the Bank's top 20 borrowers or exceeding 5% of the Bank's regulatory capital requires the review and the approval of the Supervisory Board's Risk, Ethics and Compliance Committee. This committee also approves transactions with related parties resulting in exposures to individuals and legal entities exceeding GEL 150 and 200 thousand, respectively.

Credit Risk Monitoring. The Group's risk management policies and processes are designed to identify and analyse risk in a timely manner, and monitor adherence to predefined limits by means of reliable and timely data. The Group dedicates considerable resources to gain a clear and accurate understanding of the credit risk faced across various business segments. The Group uses a robust monitoring system to react timely to macro and micro developments, identify weaknesses in the credit portfolio and outline solutions to make informed risk management decisions. Monitoring processes are tailored to the specifics of individual segments, as well as they encompass individual credit exposures, overall portfolio performance and external trends that may impact the portfolios risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Complex monitoring system is in place for monitoring of individual counterparties with frequency of monitoring depending on the borrower's risk profile and exposure. Based on the results of the monitoring borrowers are classified across different risk categories. In case there are certain weaknesses present, which if materialized may lead to loan repayment problems, borrowers are classified as "watch" category. Although watch borrowers' financial standing is sufficient to repay obligations, these borrowers are closely monitored and specific actions are undertaken to mitigate potential weaknesses. Watch category is used as one of the qualitative indicators for transferring of exposures to stage 2 for the corporate and SME borrowers. For retail and micro borrowers along with other portfolio level indicators, portfolio breakdown across risk categories is monitored on a regular basis. In case there are indicators that portfolio distribution across risk categories deteriorates above the predefined threshold it might trigger transferring the respective portfolio to stage 2, as long as deterioration signs are in place.

Reports relating to the credit quality of the credit portfolio are presented to the Board's Risk, Ethics and Compliance Committees on a quarterly basis. By comparing current data with historical figures and analysing forecasts, the management believes that it is capable identifying risks and responding to them by amending its policies in a timely manner.

Credit Risk Mitigation. Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, the Group uses credit risk mitigation tools such as collateral and guarantees to reduce the credit risk. The reliance that can be placed on these mitigation factors is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor. A centralised unit for collateral management governs the Group's view and strategy in relation to collateral management and ensures that collateral serves as an adequate mitigating factor for credit risk management purposes. The collateral management framework consists of a sound independent appraisal process, haircut system throughout the underwriting process, monitoring and revaluations.

Credit Risk Restructuring and Collection. A comprehensive portfolio supervision system is in place to identify weakened or problem credit exposures in a timely manner and to take prompt remedial actions. Dedicated restructuring units manage weakened borrowers across all business segments. The Bank differentiates between two types of restructuring considering the severity of financial weakness of the borrowers. For the measurement of ECL, restructured borrowers may be classified either in Stage 2 or Stage 3. The primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category or to Stage 1. The sophistication and complexity of rehabilitation process differs based on the type and size of exposure.

A centralised monitoring team monitors retail borrowers in delinquency, which coupled with branches' efforts, are aimed at maximizing collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile. Correcting the delinquency at early stage limits the amount of exposures becoming past due more than 30 days (one of the criteria indicating SICR) and transferred to Stage 2.

Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

Credit Quality. Depending on the type of financial asset the Group may utilize different sources of asset credit quality information including credit ratings assigned by the international rating agencies (Standard & Poor's, Fitch), credit scoring information from credit bureau and internally developed credit ratings. Financial assets are classified in an internally developed credit quality grades by taking into account the internal and external credit quality information in combination with other indicators specific to the particular exposure (e.g. delinquency). The Group defines following credit quality grades:

- Very low risk – exposures demonstrate strong ability to meet financial obligations;
- Low risk – exposures demonstrate adequate ability to meet financial obligations;
- Moderate risk – exposures demonstrate satisfactory ability to meet financial obligations;
- High risk – exposures that require closer monitoring, and
- Default – exposures in default, with observed credit impairment.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The internal credit ratings are estimated by the Group by statistical models with the limited involvement of credit officers. Statistical models include qualitative and quantitative information that shows the best predictive power based on historical data on defaults.

The rating models are regularly reviewed and back tested on actual default data. The Group regularly validates the accuracy of ratings estimates and appraises the predictive power of the models.

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

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

Definition of default: Financial assets for which the Group observed occurrence of one or more loss events are classified in Stage 3. For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The Group's definition of default for the purpose of ECL measurement, is in accordance with the Capital Requirements Regulation (EU).

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

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

In case of individually significant borrowers the Bank additionally applies criteria including but not limited to: bankruptcy proceedings, significant fraud in the borrower's business that significantly affected its financial condition, breach of the contract terms etc. For SME and corporate borrowers default is identified on the counterparty level, meaning that all the claims against the borrower are treated as defaulted. As for retail and micro exposures, facility level default definition is applied considering additional pulling effect criteria. If the amount of defaulted exposure exceeds predefined threshold, all the claims against the borrower are classified as defaulted. Once financial instrument is classified as defaulted, it remains as such until it no longer meets any of the default criteria for a consecutive period of six months, in which case exposure is considered to no longer be in default (i.e. to have cured). Grace period of six months has been determined on analysis of likelihood of a financial instrument returning to default status after curing. Exposures which are moved to stage II from default state are kept there for certain period before transferring to Stage 1 and classified as fully performing instruments again.

Significant increase in credit risk ("SICR"). Financial assets for which the Group identifies significant increase in credit risk since its origination are classified in Stage 2. SICR indicators are recognized at financial instrument level even though some of them refer to the borrower's characteristics. The Group uses both quantitative and qualitative indicators of SICR.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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

Quantitative criteria

On a quantitative basis the Bank assess change in probability of default parameter for each particular exposure since initial recognition and compares it to the predefined threshold. When absolute change in probability of default exceeds the applicable threshold, SICR is deemed to have occurred and exposure is transferred to Stage 2. Quantitative indicator of SICR is applied to retail and micro segments, where the Group has sufficient number of observations.

Qualitative criteria

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

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

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

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

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

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

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The key principles of calculating the credit risk parameters:

Exposure at default (EAD). The EAD represents estimation of exposure to credit risk at the time of default occurring during the life of financial instrument. The EAD parameter used for the purpose of the ECL calculation is time-dependent, i.e. the Bank allows for various values of the parameter to be applied to subsequent time periods during the lifetime of an exposure. Such structure of the EAD is applied to all Stage 1 and Stage 2 financial instruments. In case of Stage 3 financial instruments and defaulted POCI assets, the EAD vector is one-element with current EAD as the only value. EAD is determined differently for amortising financial instruments with contractual repayment schedules and for revolving facilities. For amortising products EAD is calculated considering the contractual repayments of principal and interest over the 12-month period for facilities classified in Stage 1 and over lifetime period for remaining instruments. It is additionally adjusted to include effect of reduction in exposure due to prepayments. For revolving products, the Bank estimates the EAD based on the expected limit utilisation percentage conditional on the default event.

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

Loss given default (LGD). The LGD parameter represents the share of an exposure that would be irretrievably lost if a borrower defaults. For Stage 1 and Stage 2 financial instruments, the LGD is estimated for each period in the instrument's lifetime and reflects the share of the expected EAD for that period that will not be recovered over the remaining lifetime of the instrument after the default date. For Stage 3 financial instruments, the LGD represents the share of the EAD as of reporting date that will not be recovered over the remaining life of that instrument. Assessment of LGD varies by the type of counterparty, segment, type of product, securitization level and availability of historical observations. The general LGD estimation process employed by the Bank is based on the assumption that after the default of the exposure, two mutually exclusive scenarios are possible. The exposure either leaves the default state (cure scenario) or does not leave the default state and will be subject to recovery process (non-cure scenario). The probability that an exposure defaults again in the cure scenario is involved in the estimation process. Risk parameters applicable to both scenarios, i.e. cure rates and recovery rates, are estimated by means of migration matrices approach, where risk groups are defined by consecutive months-in-default. For certain portfolios based on the limitations of observations alternative versions of the general approach may be applied.

Forward-looking information. The measurement of unbiased, probability weighted ECL requires inclusion of forward looking information obtainable without undue cost or effort. For forward looking information purposes the Bank defines three macro scenarios. The scenarios are defined as baseline (most likely), upside (better than most likely) and downside (worse than most likely) scenarios of the state of the Georgian economy with weights of 50%, 25% and 25% assigned to each scenario respectively.

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

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

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities as of 31 December 2018 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	648,068	515,159	1,176	1,164,403
Due from other banks	18,485	12,852	6,047	37,384
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	1,422,809
Loans and advances to customers	9,526,936	121,712	389,804	10,038,452
Investment securities measured at fair value through other comprehensive income	1,004,564	-	675	1,005,239
Bonds carried at amortised cost	653,703	-	-	653,703
Investments in leases	202,850	-	952	203,802
Other financial assets	153,640	329	290	154,259
Total financial assets	13,631,055	650,052	398,944	14,680,051
Non-financial assets	769,139	56	3,642	772,837
Total assets	14,400,194	650,108	402,586	15,452,888
Liabilities				
Due to credit institutions	1,154,329	1,811,299	65,877	3,031,505
Customer accounts	7,882,839	697,753	864,154	9,444,746
Debt securities in issue	7,927	-	5,416	13,343
Other financial liabilities	77,870	296	39	78,205
Subordinated debt	94,263	420,031	136,625	650,919
Total financial liabilities	9,217,228	2,929,379	1,072,111	13,218,718
Non-financial liabilities	121,395	525	493	122,413
Total liabilities	9,338,623	2,929,904	1,072,604	13,341,131
Net balance sheet position	5,061,571	(2,279,796)	(670,018)	2,111,757
Performance guarantees	684,844	291,795	219,208	1,195,847
Credit related commitments	870,446	3,751	1,638	875,835

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2017 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	818,094	608,575	2,102	1,428,771
Due from other banks	25,329	8,733	3,727	37,789
Mandatory cash balances with National Bank of Georgia	1,033,818	-	-	1,033,818
Loans and advances to customers	7,960,107	67,805	297,441	8,325,353
Investment securities available for sale	657,068	-	870	657,938
Bonds carried at amortised cost	449,538	-	-	449,538
Investments in leases	143,836	-	-	143,836
Other financial assets	133,789	141	205	134,135
Total financial assets	11,221,579	685,254	304,345	12,211,178
Non-financial assets	721,274	55	4,691	726,020
Total assets	11,942,853	685,309	309,036	12,937,198
Liabilities				
Due to credit institutions	1,069,211	1,559,644	15,859	2,644,714
Customer accounts	6,517,641	694,820	622,862	7,835,323
Debt securities in issue	7,821	-	12,874	20,695
Other financial liabilities	78,670	474	630	79,774
Subordinated debt	62,508	232,263	132,017	426,788
Total financial liabilities	7,735,851	2,487,201	784,242	11,007,294
Non-financial liabilities	79,612	1,084	846	81,542
Total liabilities	7,815,463	2,488,285	785,088	11,088,836
Net balance sheet position	4,127,390	(1,802,976)	(476,052)	1,848,362
Performance guarantees	387,904	151,502	72,905	612,311
Credit related commitments	968,019	2,996	6,045	977,060

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The geographical concentration of the Group's assets and liabilities as of 31 December 2016 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	548,866	389,223	6,678	944,767
Due from other banks	4,973	18,851	-	23,824
Mandatory cash balances with National Bank of Georgia	990,642	-	-	990,642
Loans and advances to customers	6,923,037	88,616	122,049	7,133,702
Investment securities available for sale	429,985	-	718	430,703
Bonds carried at amortised cost	372,956	-	-	372,956
Investments in leases	95,031	-	-	95,031
Other financial assets	91,666	229	-	91,895
Total financial assets	9,457,156	496,919	129,445	10,083,520
Non-financial assets	673,438	29	4,772	678,239
Total assets	10,130,594	496,948	134,217	10,761,759
Liabilities				
Due to credit institutions	719,098	1,410,693	70,185	2,199,976
Customer accounts	5,426,095	532,690	502,797	6,461,582
Debt securities in issue	13,261	-	10,247	23,508
Other financial liabilities	48,248	1,285	620	50,153
Subordinated debt	-	233,657	134,724	368,381
Total financial liabilities	6,206,702	2,178,325	718,573	9,103,600
Non-financial liabilities	84,678	1,100	592	86,370
Total liabilities	6,291,380	2,179,425	719,165	9,189,970
Net balance sheet position	3,839,214	(1,682,477)	(584,948)	1,571,789
Performance guarantees	274,614	56,406	95,588	426,608
Credit related commitments	706,646	10,175	3,391	720,212

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As of 31 December 2018, the Bank maintained an aggregate open currency position of 7.6% of regulatory capital (2017: 1.5%; 2016: 3.2%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. Under the ICAAP framework the Bank developed methodology for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers all provisions to be denominated in the local currency. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented. In addition, the regulatory requirement effect of GEL 77.8 million and treasury FX short-term operation effect of GEL 37.5 million are excluded from USD OCP calculation purposes:

	As of 31 December 2018			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	5,915,034	4,751,326	86,122	1,249,830
US Dollars	7,289,483	7,431,595	323,246	181,134
Euros	1,374,805	948,620	(409,565)	16,620
Other	100,729	87,165	(463)	13,101
Total	14,680,051	13,218,706	(660)	1,460,685

	As of 31 December 2017			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	4,812,558	3,809,208	164,521	1,167,871
US Dollars	6,460,892	6,288,939	(153,449)	18,504
Euros	816,277	805,172	(9,315)	1,790
Other	121,432	103,975	(899)	16,558
Total	12,211,159	11,007,294	858	1,204,723

	As of 31 December 2016			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Lari	3,483,389	2,485,281	9,394	1,007,502
US Dollars	5,819,504	5,850,217	(8,905)	(39,618)
Euros	690,667	697,520	(13)	(6,866)
Other	89,960	70,582	(288)	19,090
Total	10,083,520	9,103,600	188	980,108

To assess the currency risk the Bank performs a value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the Group's income determined by possible worst movement of currency rates against the Georgian Lari, with all other variables held constant. To identify the maximum expected losses resulting from currency fluctuations, a 99% confidence level is defined based on the monthly variations in exchange rates over 3 year look-back period. During the years ended 31 December 2018, 2017 and 2016, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	As of 31 December 2018	As of 31 December 2017	As of 31 December 2016
Maximum loss (VAR, 99% confidence level)	(6,758)	(1,807)	(1,184)
Maximum loss (VAR,95% confidence level)	(4,683)	(1,197)	(868)

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

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The Bank's deposits and the most loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank used to enter into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest re-pricing or maturity dates. Currency and interest rate swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables. The tables consider both reserves placed with NBG and Interest bearing Nostro accounts. Income on NBG reserves and Nostros are calculated as benchmark minus margin whereby for benchmark Federal funds rate and ECB rates are considered in case of USD and EUR respectively. Therefore, they have impact on the TBC's Net interest income in case of both upward and downward shift of interest rates.

In thousands of GEL	Less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2018					
Total financial assets	**4,776,646**	**3,596,006**	**1,009,348**	**5,298,973**	**14,680,973**
Total financial liabilities	**4,565,789**	**3,327,654**	**1,026,112**	**4,300,095**	**13,219,650**
Net interest sensitivity gap as of 31 December 2018	**210,857**	**268,352**	**(16,764)**	**998,878**	**1,461,323**
31 December 2017					
Total financial assets	3,419,809	2,440,185	1,065,644	5,306,276	12,231,914
Total financial liabilities	4,098,666	2,628,473	1,046,629	3,254,239	11,028,007
Net interest sensitivity gap as of 31 December 2017	(678,857)	(188,288)	19,015	2,052,037	1,203,907
31 December 2016					
Total financial assets	2,707,541	1,796,745	1,011,420	4,606,985	10,122,691
Total financial liabilities	3,603,901	2,011,224	1,024,058	2,503,590	9,142,773
Net interest sensitivity gap as of 31 December 2016	(896,360)	(214,479)	(12,638)	2,103,395	979,918

As of 31 December 2018, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 4.4 million higher (2017: GEL 7.6 million, 2016: GEL 9.5 million), mainly as a result of lower interest income on variable interest assets. Other comprehensive income would have been GEL 6,131 thousand higher (2017: GEL 6,131 thousand, 2016: GEL 1,516 thousand), as a result of an increase in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 4.4 million lower (2017: GEL 7.6 million, 2016: GEL 9.5 million), mainly as a result of higher interest income on variable interest assets. Other comprehensive income would have been GEL 5,861 thousand lower (2017: GEL 5,861 thousand, 2016: GEL 2,118 thousand), as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

With the assistance of Ernst & Young LLC the Bank has developed an advanced model to manage the interest rate risk on a standalone basis. The interest rate risk analysis is performed monthly by the Financial Risk Management Department.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes.

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

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

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

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

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank internally developed Liquidity Coverage ratio and a Net Stable Funding ratio models, both under Basel III, guidelines. In addition the Bank performs stress tests and "what-if" scenario analysis and minimum liquidity ratio defined by the NBG. In 2017, for liquidity risk management purposes National Bank of Georgia introduced Liquidity Coverage Ratio ("NBG LCR"), where in addition to Basel III guidelines conservative approaches were applied to Mandatory Reserves' weighting and to the deposits' withdrawal rates depending on the clients group's concentration. From 1st of September, 2017 the Bank also monitors compliance with NBG LCR limits.

The Liquidity Coverage Ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time buckets and ensure that NBG LCR limits, are met on a daily basis. TBC Bank also stress tests the results of liquidity through large shock scenarios provided by the NBG.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC Bank to rely on more stable sources of funding on a continuous basis. The Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with NBG's accounting rules.

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

The loan to deposit ratio (defined as total value of net loans divided by total value of deposits) stood at 106.3% 106.3% and 110.5%, at the 31 December 2018, 2017 and 2016 respectively.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

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

In addition, TBC Bank has a ***liquidity contingency plan,*** which is part of the Bank's overall prudential liquidity policy and is designed to ensure that TBC Bank is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

The Bank calculates its liquidity ratios on a daily basis in accordance with the NBG's requirements.

The Liquidity Ratio: The limit is set by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months.

NBG LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows defined as per NBG guidelines. The limit is set by the NBG as per total LCR also by currency (GEL, FX). To promote larization in the country of Georgia, NBG defines lower limit for GEL LCR than that for FX LCR. In addition, NBG mandatory Regulatory reserves in FX currency is only considered at 75% per LCR calculation purposes. NBG guidelines apply higher withdrawal rates to the deposits and off-balance instruments depending on the clients group's concentration than those rates defined per Basel III requirements.

As of 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2018	2017	2016
Average Liquidity Ratio	**33.3%**	32.5%	30.8%
Total Liquidity Coverage Ratio	**113.9%**	112.7%	-
GEL Liquidity Coverage Ratio	**102.5%**	95.6%	-
FX Liquidity Coverage Ratio	**121.1%**	122.9%	-

According to daily cash flow forecasts and the surplus in liquidity standing, the Treasury Department places funds in short-term liquid assets , largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2018. Subject-to-notice repayments are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The maturity analysis of financial liabilities as of 31 December 2018 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	950,084	372,517	1,909,587	187,454	3,419,642
Customer accounts – individuals	3,152,851	1,408,710	628,831	27,397	5,217,789
Customer accounts – other	3,821,862	208,250	137,274	195,007	4,362,393
Other financial liabilities	72,399	5,806	-	-	78,205
Subordinated debt	5,573	71,519	415,090	588,197	1,080,379
Debt securities in issue	366	13,847	-	-	14,213
Gross settled forwards	567,259	16,008	-	-	583,267
Performance guarantees	119,994	349,354	671,333	55,166	1,195,847
Financial guarantees and letter of credit	105,973	-	-	-	105,973
Other credit related commitments	769,863	-	-	-	769,863
Total potential future payments for financial obligations	9,566,224	2,446,011	3,762,115	1,053,221	16,827,571

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

The maturity analysis of financial liabilities as of 31 December 2017 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	1,142,865	418,613	1,167,970	151,417	2,880,865
Customer accounts – individuals	2,532,039	1,378,835	522,104	40,727	4,473,705
Customer accounts – other	3,068,027	192,852	133,236	80,976	3,475,091
Other financial liabilities	75,081	4,433	260	-	79,774
Subordinated debt	5,060	74,191	198,042	346,703	623,996
Debt securities in issue	504	8,814	13,687	-	23,005
Gross settled forwards	176,822	5,509	-	-	182,331
Performance guarantees	55,928	241,460	306,788	8,135	612,311
Financial guarantees and letter of credit	248,882	-	-	-	248,882
Other credit related commitments	728,178	-	-	-	728,178
Total potential future payments for financial obligations	8,033,386	2,324,707	2,342,087	627,958	13,328,138

The maturity analysis of financial liabilities as of 31 December 2016 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	837,189	310,447	1,103,959	168,271	2,419,866
Customer accounts – individuals	2,147,014	1,284,067	360,609	39,578	3,831,268
Customer accounts – other	2,287,043	238,551	134,293	74,180	2,734,067
Other financial liabilities	46,464	2,545	1,144	-	50,153
Subordinated debt	4,853	29,510	238,224	360,551	633,138
Debt securities in issue	616	6,584	22,745	-	29,945
Gross settled forwards	16,084	3,641	369	-	20,094
Performance guarantees	60,552	154,616	210,595	845	426,608
Financial guarantees and letter of credit	271,102	-	-	-	271,102
Other credit related commitments	449,110	-	-	-	449,110
Total potential future payments for financial obligations	6,120,027	2,029,961	2,071,938	643,425	10,865,351

The undiscounted financial liability analysis gap does not reflect the historical stability of the current accounts. Their liquidation has historically taken place over a longer period than the one indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in the customer accounts are classified based on remaining contractual maturities, according to the Georgian Civil Code, however, individuals have the right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon the depositor's demand. Based on the Bank's deposit retention history, the management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect the management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors the liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2018 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,164,403	-	-	-	1,164,403
Due from other banks	25,471	8,075	3,838	-	37,384
Mandatory cash balances with National Bank of Georgia	1,422,809	-	-	-	1,422,809
Loans and advances to customers	1,090,521	2,056,149	4,152,436	2,739,346	10,038,452
Investment securities measured at fair value through other comprehensive income	1,005,239	-	-	-	1,005,239
Bonds carried at amortised cost	118,989	92,877	368,843	72,994	653,703
Finance lease receivables	31,134	56,432	113,087	3,149	203,802
Other financial assets	132,270	20,325	1,664	-	154,259
Total financial assets	4,990,836	2,233,858	4,639,868	2,815,489	14,680,051
Liabilities					
Due to Credit institutions	933,513	271,993	1,653,575	172,424	3,031,505
Customer accounts	1,007,472	129,666	-	8,307,608	9,444,746
Debt securities in issue	112	13,231	-	-	13,343
Other financial liabilities	72,399	5,806	-	-	78,205
Subordinated debt	3,049	23,245	182,986	441,639	650,919
Total financial liabilities	2,016,545	443,941	1,836,561	8,921,671	13,218,718
Credit related commitments and performance guarantees					
Performance guarantees	4,393	-	-	-	4,393
Financial guarantees	5,424	-	-	-	5,424
Other credit related commitments	103,029	-	-	-	103,029
Credit related commitments and performance guarantees	112,846	-	-	-	112,846
Net liquidity gap as of 31 December 2018	2,861,445	1,789,917	2,803,307	(6,106,182)	1,348,487
Cumulative gap as of 31 December 2018	2,861,445	4,651,362	7,454,669	1,348,487	

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

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2017 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,428,771	-	-	-	1,428,771
Due from other banks	32,541	1,521	3,727	-	37,789
Mandatory cash balances with National Bank of Georgia	1,033,818	-	-	-	1,033,818
Loans and advances to customers	1,031,608	1,767,797	3,438,180	2,087,768	8,325,353
Investment securities available for sale	657,938	-	-	-	657,938
Bonds carried at amortised cost	81,859	105,956	216,177	45,546	449,538
Finance lease receivables	22,896	38,526	82,414	-	143,836
Other financial assets	104,537	16,265	13,333	-	134,135
Total financial assets	4,393,968	1,930,065	3,753,831	2,133,314	12,211,178
Liabilities					
Due to Credit institutions	1,137,076	351,381	1,014,480	141,777	2,644,714
Customer accounts	846,121	137,146	-	6,852,056	7,835,323
Debt securities in issue	47	7,778	12,870	-	20,695
Other financial liabilities	75,081	4,433	260	-	79,774
Subordinated debt	3,471	49,694	97,372	276,251	426,788
Total financial liabilities	2,061,796	550,432	1,124,982	7,270,084	11,007,294
Credit related commitments and performance guarantees					
Performance guarantees	2,067	-	-	-	2,067
Financial guarantees	8,239	-	-	-	8,239
Other credit related commitments	105,268	-	-	-	105,268
Credit related commitments and performance guarantees	115,574	-	-	-	115,574
Net liquidity gap as of 31 December 2017	2,216,598	1,379,633	2,628,849	(5,136,770)	1,088,310
Cumulative gap as of 31 December 2017	2,216,598	3,596,231	6,225,080	1,088,310	

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

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

As of 31 December 2016 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	944,767	-	-	-	944,767
Due from other banks	4,416	4,312	5,541	9,555	23,824
Mandatory cash balances with National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	1,119,128	1,481,095	2,949,227	1,584,252	7,133,702
Investment securities available for sale	430,703	-	-	-	430,703
Bonds carried at amortised cost	123,763	94,250	128,201	26,742	372,956
Finance lease receivables	18,770	30,600	45,661	-	95,031
Other financial assets	63,484	8,709	19,702	-	91,895
Total financial assets	3,695,673	1,618,966	3,148,332	1,620,549	10,083,520
Liabilities					
Due to Credit institutions	796,547	260,046	988,857	154,526	2,199,976
Customer accounts	724,083	154,672	-	5,582,827	6,461,582
Debt securities in issue	145	5,277	18,086	-	23,508
Other financial liabilities	46,464	2,545	1,144		50,153
Subordinated debt	3,333	4,893	125,174	234,981	368,381
Total financial liabilities	1,570,572	427,433	1,133,261	5,972,334	9,103,600
Credit related commitments and performance guarantees					
Performance guarantees	2,635	-	-	-	2,635
Financial guarantees	8,049	-	-	-	8,049
Other credit related commitments	45,854	-	-	-	45,854
Credit related commitments and performance guarantees	56,538	-	-	-	56,538
Net liquidity gap as of 31 December 2016	2,068,563	1,191,533	2,015,071	(4,351,785)	923,382
Cumulative gap as of 31 December 2016	2,068,563	3,260,096	5,275,167	923,382	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. VAR as of December 2018 equaled 10.9% (2017: 12.3%, 2016: 13.6%). The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-1 months), (0-3 months), (0-6 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information on the fluctuations of customer account balances.

35 FINANCIAL AND OTHER RISK MANAGEMENT CONTINUED

Operating environment. Most of the Group's business is based in Georgia. Emerging economies, such as Georgia's, are subject to rapid change and are vulnerable to global market conditions and economic downturns. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has embarked on a number of civil, criminal, tax, administrative and commercial reforms that have positively affected the overall investment climate of the country. Today Georgia has an international reputation as a country with a favourable investment environment. Georgia continued to progress in the report "Doing Business 2019" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 6th easiest country in the world to do business (out of 190), up by 7 steps compared to the previous year rankings. The country improved its ranking in almost all categories, confirming its position as regional leader and outperforming most of the EU economies. Georgia also boasts low corruption levels, a low tax burden, and high transparency of its institutions according to the number of surveys by international institutions. The domestic economic environment remains stable and the banking sector continues to grow, supported by broader macroeconomic stability and attractive business climate. As a result of strong macroeconomic performance, diversified sources of inflows and prudent macroeconomic policies, on February 22, 2019 Fitch Ratings upgraded Georgia's sovereign credit rating from 'BB-' to 'BB' with stable outlook.

GDP growth stood at 4.8% YoY in 2018, per initial estimates of Geostat. The growth was broad-based across different sectors of the economy. Based on 9m quarterly released figures, 4.8% higher value added YoY was mostly driven by trade and repairs (+5.7% YoY), real estate (+12.7% YoY), transport and communications (+6.8% YoY), financial intermediation (+15.8% YoY) and hotels and restaurants (+7.3% YoY). The construction sector declined by 3.8% YoY over the same period, reflecting one-off factors related to the several large-scale infrastructure projects as well as slowdown in public spending.

The growth of inflows of exports, tourism and remittances remained strong in H1 2018 (+26.4% YoY in USD terms). Following the economic difficulties in Turkey, sanctions on Iran, and RUB weakness, the growth of inflows slowed in the second half of 2018 (+14.6% YoY), but still remained solid. As for the full year of 2018, the growth of total inflows amounted to 19.4 % YoY. CA balance continues to improve. Over the last four quarters ending Q3 2018 CA deficit to GDP ratio stood at 8.3% compared to the 8.8% in 2017. Improvement in CA deficit mostly reflects several factors, including continued positive trend in external inflows, normalization of FDI related imports as well as low fiscal spending. As a result of the improvement trend and strong seasonal effect, in Q3 2018 CA turned even to surplus at 0.3% of GDP.

FDI inflows declined by 27.2% YoY in 9m 2018 mostly reflecting one-offs related to the finalization of the BP's South Caucasus Pipeline Extension project. [1] From the sectors perspective, the decline was most pronounced in transport and communications (-70.6% YoY) and construction sectors, both to be primarily explained by the finalization of BP's project mentioned above. FDI inflows also declined in real estate (-47.8% YoY) and hotels and restaurants (-11.1% YoY) sector. At the same time, FDI inflows went up in manufacturing (+61.2% YoY), mining (+38.1% YoY), financial (+31.1% YoY) and energy (+30.1% YoY) sectors. FDI inflows remain the major source of financing for the CA deficit.

Fiscal policy remained contractionary throughout the year. Although the budget deficit amounted to an estimated 2.6% of GDP in 2018, the spending was concentrated mostly by the end of the year and primarily reflected the advance payments on infrastructure projects. The full impact of the spending on growth will be materialized later in coming months with the strongest effect likely in Q2 2019.

Loan growth remained solid in 2018 with the total bank loan portfolio expanding by 17.2% YoY at constant exchange rate. Lending was strong across the business as well as retail segments, albeit, sharp slowdown in non-mortgage retail lending was notable since the introduction of the regulation on unsecured lending in May 2018.

Annual CPI inflation was around the targeted level of 3% in 2018 with 4.3% in January and gradually declining to 1.5% by the end of 2018. The NBG decreased policy rate by 0.25 PP from 7.25% to 7.00% in July 2018. The central bank continued the normalization of the monetary policy in 2019 as well, cutting the policy rate by another 0.25 pp to 6.75% in January 2019. According to the announcement following the latest monetary policy committee meeting, NBG is expected to continue to normalize the policy stance at a slow pace, depending on the domestic demand as well as the external sector developments.

On the back of higher inflows, lower oil prices and likely weaker domestic demand, NBG continued to refill international reserves and purchased 65 mln USD in December, equivalent to an estimated 4.0% of the same month GDP. Overall, in 2018 NBG made 17 interventions and purchased 197.5 mln USD – an estimated 1.2% of GDP.

As for the exchange rates, as of the end of December 2018 GEL nominal exchange rate weakened against USD by 3.3% YoY and appreciated against EUR by 1.1% YoY. Over the same period, GEL nominal effective exchange rate appreciated by 8.0% while real effective exchange rate appreciation stood at 4.6%.

[1] https://www.bp.com/en_ge/bp-georgia/about-bp/bp-in-georgia/south-caucasus-pipeline--scp-.html

36 MANAGEMENT OF CAPITAL

The Group's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. Additionally, the Group's capital management objectives entail ensuring that the Bank complies with the capital requirements set by the Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the reports outlining their calculation and are reviewed and signed by the Bank's CFO and Deputy CFO.

The Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2016, 2017 and 2018.

In December 2017, the NBG has introduced updated capital framework that is more compliant with Basel III guidelines. Under updated capital framework capital requirements are divided into Pillar 1 and Pillar 2 buffers. Details regarding the capital buffers are outlined below:

- The capital conservation buffer (which was incorporated in minimum capital requirements) is separated and set at 2.5%;
- A systemic risk buffer will be introduced for systematically important banks over the 4 years period; A systemic risk buffer as of December 2018 equals to 1%;
- A countercyclical capital buffer is set at 0%;
- A currency induced credit risk (CICR) buffer replaced conservative weighting for un-hedged FX loans denominated in foreign currencies;
- Concentration buffer for sectoral and single borrower exposure will be introduced;
- The need for the net stress buffer will be assessed based on stress testing results provided by the Group;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator, is applied based on the Bank's specific risks.

In addition, based on the updated methodology, specific PTI (payment to income) and LTV (loan to value) thresholds were introduced. For the exposures which do not fall into pre-defined limits for PTI and LTV ratios, higher risk weights were applied.

NBG Basel II Capital adequacy ratio
Both, Tier 1 and Total capital adequacy ratios are calculated based on the Basel III methodology introduced by NBG. The details are described on page 207.

The table below presents the capital adequacy ratios as well as minimum requirements set by the NBG.

In thousands of GEL	2018	2017	2016
Tier 1 Capital	**1,678,716**	1,437,218	1,041,270
Tier 2 Capital	**672,553**	448,069	380,751
Regulatory capital	**2,351,269**	1,885,287	1,422,021
Risk-weighted Exposures			
Credit Risk Weighted Exposures	**11,458,497**	9,754,146	9,399,140
Risk Weighted Exposures for Market Risk	**179,381**	28,802	45,689
Risk Weighted Exposures for Operational Risk	**1,516,993**	970,241	576,628
Total Risk-weighted Exposures	**13,154,871**	10,753,189	10,021,457
Minimum Tier 1 ratio	**11.8%**	10.3%	8.5%
Tier 1 Capital adequacy ratio	**12.8%**	13.4%	10.4%
Minimum total capital adequacy ratio	**16.7%**	12.9%	10.5%
Total Capital adequacy ratio	**17.9%**	17.5%	14.2%

36 MANAGEMENT OF CAPITAL CONTINUED

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2017 are given in the tables below:

	2018	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	**4,181,199**	**1,625,289**
Gross Loans and accrued interests	**9,206,646**	**7,203,609**
Repossessed assets	**46,755**	**46,755**
Fixed assets and intangible assets	**508,582**	**287,403**
Other assets	**1,428,945**	**1,639,128**
minus general provision, penalty and interest provision	**(37,705)**	**(37,705)**
Total	**15,334,422**	**10,764,479**
Total Off-balance	**2,694,174**	**694,018**
Market Risk	**179,381**	**179,381**
Operational Risk	**809,063**	**1,516,993**
Total Amount	**19,017,040**	**13,154,871**

	2017	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	3,510,760	1,275,017
Gross Loans and accrued interests	8,233,132	6,798,464
Repossessed assets	58,530	58,530
Fixed assets and intangible assets	437,878	264,768
Other assets	553,176	713,096
minus general provision, penalty and interest provision	(30,862)	(30,862)
Total	12,762,614	9,079,013
Total Off-balance	1,919,565	675,133
Market Risk	28,802	28,802
Operational Risk	517,462	970,241
Total Amount	15,228,443	10,753,189

For year ended 31 December 2016 under the NBG Basel II/III requirements, the Bank calculated its capital requirements and risk weighted assets separately for Pillar 1. The NBG provided detailed instructions of Pillar 1 calculations. The reporting started at the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	**2016**
Tier 1 Capital	1,041,270
Tier 2 Capital	380,751
Regulatory capital	1,422,021
Risk-weighted Exposures	
Credit Risk Weighted Exposures	9,399,140
Risk Weighted Exposures for Market Risk	45,689
Risk Weighted Exposures for Operational Risk	576,628
Total Risk-weighted Exposures	10,021,457
Minimum Tier 1 ratio	8.5%
Tier 1 Capital adequacy ratio	10.4%
Minimum total capital adequacy ratio	10.5%
Total Capital adequacy ratio	14.2%

36 MANAGEMENT OF CAPITAL CONTINUED

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of 31 December 2016 is given in the table below:

	2016	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Deposits and Securities	2,397,259	1,086,262
Gross Loans and accrued interests, excluding loans to JSC Bank Constanta	5,771,369	7,149,145
Repossessed assets	46,441	46,441
Fixed assets and intangible assets	328,184	273,176
Other assets	647,261	536,747
minus general provision, penalty and interest provision	(45,534)	(45,534)
Total	9,144,980	9,046,237
Total Off-balance	978,221	352,903
Market Risk	45,689	45,689
Operational Risk	403,640	576,628
Total Amount	10,572,530	10,021,457

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements. These requirements include capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	**2018**	2017	2016
Tier 1 capital			
Share capital	**542,204**	524,807	524,778
Retained earnings and disclosed reserves	**1,509,990**	1,254,331	983,387
Less: Goodwill	**(29,459)**	(26,892)	(26,892)
Non-controlling interest	**568**	4,735	4,383
Total tier 1 capital	**2,023,303**	1,756,981	1,485,656
Tier 2 capital			
Revaluation reserves	**58,995**	64,489	59,240
General Reserve	**129,739**	109,372	88,300
Subordinated debt (included in tier 2 capital)	**548,508**	355,944	323,087
Total tier 2 capital	**737,242**	529,805	470,627
Total capital	**2,760,545**	2,286,786	1,956,283
Credit risk weighted assets (including off-balance obligations)	**10,379,124**	8,749,752	7,064,035
Less: General Reserve	**(204,391)**	(118,492)	(136,721)
Market Risk	**210,916**	40,803	46,484
Total Risk-weighted assets	**10,385,649**	8,672,063	6,973,798
Minimum Tier 1 ratio	**4.0%**	4.0%	4.0%
Tier 1 Capital adequacy ratio	**19.5%**	20.3%	21.3%
Minimum total capital adequacy ratio	**8.0%**	8.0%	8.0%
Total Capital adequacy ratio	**26.6%**	26.4%	28.1%

Following the Basel I guidelines the General Reserve is defined by the management as the minimum among the following:

a) IFRS provisions created on loans without impairment trigger event;
b) 2% of loans without impairment trigger event;
c) 1.25% of total RWA (Risk Weighted Assets).

36 MANAGEMENT OF CAPITAL CONTINUED

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2018, 2017 and 2016 are provided in the tables below:

In thousands of GEL	2018	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	**4,285,970**	**244,844**
Gross loans and accrued interests	**10,372,582**	**8,281,144**
Repossessed assets	**124,643**	**124,643**
Fixed assets and intangible assets	**504,035**	**474,576**
Other assets	**499,747**	**499,747**
Total	**15,786,977**	**9,624,954**
Total Off-balance	**2,674,697**	**754,170**
Less: Loan loss provision minus General Reserve	**(204,391)**	**(204,391)**
Market Risk	**210,916**	**210,916**
Total Amount	**18,468,199**	**10,385,649**

In thousands of GEL	2017	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	3,609,132	214,353
Gross loans and accrued interests	8,553,217	6,885,960
Repossessed assets	116,809	116,809
Fixed assets and intangible assets	476,027	449,136
Other assets	409,876	409,876
Total	13,165,061	8,076,134
Total Off-balance	1,907,457	673,618
Less: Loan loss provision minus General Reserve	(118,492)	(118,492)
Market Risk	40,803	40,803
Total Amount	14,994,829	8,672,063

In thousands of GEL	2016	
Risk weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities measured at FVOCI	2,762,892	133,527
Gross loans and accrued interests	7,358,725	5,609,312
Repossessed assets	90,873	90,873
Fixed assets and intangible assets	401,174	374,282
Other assets	373,118	373,118
Total	10,986,782	6,581,112
Total Off-balance	1,290,813	482,923
Less: Loan loss provision minus General Reserve	(136,721)	(136,721)
Market Risk	46,484	46,484
Total Amount	12,187,358	6,973,798

37 CONTINGENCIES AND COMMITMENTS

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as it will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2018, 2017 and 2016 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as of 31 December 2018, the future minimum lease payments under non-cancellable operating leases over the next year amounted to GEL 6,844 thousand (31 December 2017: 6,465 thousand; 31 December 2016: 5,016 thousand).

Compliance with covenants. The Group is subject to certain covenants primarily related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. In April 2017, the group had breached one of the covenants with a foreign financial institution lender. The group has obtained the waiver from the financial institution in June 2017, whereby the breach was retrospectively waived. As of 31 December 2016, TBC Kredit had breached certain borrowing covenants agreed with foreign financial institution lenders. The major reason for the breach was drastic devaluation of Azerbaijani Manat in February and December 2015. The Group was in compliance with all other covenants as of 31 December 2018, 31 December 2017 and 31 December 2016.

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

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

Outstanding credit related commitments are as follows:

In thousands of GEL	**2018**	**2017**	**2016**
Undrawn credit lines	**769,863**	728,178	449,110
Letters of credit issued	**105,972**	106,919	154,842
Financial guarantees issued	**-**	141,963	116,260
Total gross credit related commitments	**875,835**	977,060	720,212
Credit loss allowance for credit related commitments	**(5,424)**	(8,239)	(8,049)
Total credit related commitments	**870,411**	968,821	712,163

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as of 31 December 2018 were GEL 344,360 thousand (2017: GEL 389,148 thousand; 2016: GEL 169,831 thousand).

37 CONTINGENCIES AND COMMITMENTS CONTINUED

Performance guarantees. Performance guarantees are contracts that provide compensation in case of another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contracts is the possibility that the insured event occurs (i.e.: the failure to perform the contractual obligation by another party). The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts, relative to expectations.

Outstanding amount of performance guarantees and respective provision as of December 2018 is GEL 1,195,847 thousand and GEL 4,393 thousand (2017: GEL 612,311 thousand and GEL 2,067 thousand; 2016: GEL 426,608 thousand and GEL 2,635 thousand).

Fair value of credit related commitments and financial guarantees were GEL 5,424 thousand as of 31 December 2018 (2017: GEL 8,239 thousand; 2016: GEL 8,049 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	2018	2017	2016
Georgian Laris	**854,000**	618,558	409,498
US Dollars	**955,829**	734,970	545,621
Euro	**218,091**	166,304	101,892
Other	**43,762**	69,539	89,809
Total	**2,071,682**	1,589,371	1,146,820

Capital expenditure commitments. As of 31 December 2018, the Group has contractual capital expenditure commitments amounting to GEL 12,210 thousand (2017: 7,816 thousand, 2016: 5,665 thousand).

38 NON-CONTROLLING INTEREST

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2018:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Leasing JSC	**0.39%**	**26**	**96**
TBC Kredit LLC*	**-**	**251**	**-**
United Financial Corporation JSC	**1.33%**	**59**	**517**
BG LLC**	**-**	**(88)**	**-**

*In 2018 the Group purchased remaining 25% shareholding from TBC Kredit LLC shareholders and became 100% owner of the company.

**In 2018 the Group obtained de-facto control over BG LLC and the total return from the subsidiary have been attributable to the NCI.

The summarised financial information of these subsidiaries was as follows as of 31 December 2018:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash
TBC Leasing JSC	**160,619**	**128,610**	**138,582**	**126,954**	**26,998**	**6,585**	**6,585**	**10,773**
TBC Kredit LLC	**19,639**	**14,987**	**13,961**	**10,813**	**3,177**	**1,836**	**1,836**	**(1,622)**
United Financial Corporation JSC	**8,711**	**6,646**	**3,284**	**-**	**12,401**	**4,427**	**4,427**	**(438)**
BG LLC	**8,964**	**1**	**60**	**8,993**	**123**	**(88)**	**(88)**	**63**

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2017:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit/(loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Leasing JSC	0.39%	14	70
TBC Kredit LLC	25%	275	4,165
United Financial Corporation JSC	1.34%	63	500

38 NON-CONTROLLING INTEREST CONTINUED

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2017:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash
TBC Leasing JSC	111,169	87,928	95,988	85,262	15,236	3,436	3,436	2,450
TBC Kredit LLC	19,771	20,319	11,858	20,636	5,172	1,098	1,098	(3,631)
United Financial Corporation JSC	6,353	5,136	1,255	45	12,708	4,733	4,733	40

The summarised financial information of these subsidiaries was as follows as of 31 December 2016:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
TBC Leasing JSC	0.39%	9	56
TBC Kredit LLC	25%	(2,865)	3,890
United Financial Corporation JSC	1.34%	50	436

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2016:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash
TBC Leasing JSC	71,484	49,140	54,930	51,283	11,566	2,316	2,316	(5,425)
TBC Kredit LLC	20,649	19,458	16,034	17,867	8,367	(11,461)	(11,461)	(4,291)
United Financial Corporation JSC	9,271	5,800	9,114	45	11,979	3,737	3,737	(1,243)

39 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As of 31 December 2018, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of GEL	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	**17,544**	**3,154**	**14,390**	**-**	**-**	**14,390**
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**17,544**	**3,154**	**14,390**	**-**	**-**	**14,390**
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	**21,426**	**3,154**	**18,272**	**-**	**-**	**18,272**
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**21,426**	**3,154**	**18,272**	**-**	**-**	**18,272**

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of GEL	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	29,308	2,605	26,703	-	-	26,703
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	29,308	2,605	26,703	-	-	26,703
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	12,964	2,605	10,359	-	-	10,359
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	12,964	2,605	10,359	-	-	10,359

39 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
In thousands of GEL	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)
ASSETS						
Other financial assets:						
- Receivables on credit card services and money transfers	26,959	2,158	24,801	-	-	24,801
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	26,959	2,158	24,801	-	-	24,801
LIABILITIES						
Other financial liabilities:						
- Payables on credit card services and money transfers	14,563	2,158	12,405	-	-	12,405
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	14,563	2,158	12,405	-	-	12,405

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

40 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	**2018**	2017	2016
Fair value of gross settled currency swaps, included in other financial assets or due from banks	**1,370**	1,767	508
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**(2,030)**	(909)	(320)
Fair value of Interest rate swaps, included in other financial liabilities	**-**	(267)	(1,055)
Total	**(660)**	591	(867)

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments the Group entered are generally traded in an over-the-counter market with professional counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps the Group entered. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term by their nature.

	2018		2017		2016	
In thousands of GEL	**Contracts with positive fair value**	**Contracts with negative fair value**	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	**-**	**(19,631)**	-	(166,326)	-	(13,125)
- USD receivable on settlement (+)	**105,753**	**-**	12,877	-	4,220	-
- GEL payable on settlement (-)	**-**	**(119,465)**	-	(1,360)	-	(1,604)
- GEL receivable on settlement (+)	**442,711**	**-**	165,881	-	10,998	-
- EUR payable on settlement (-)	**-**	**(441,617)**	-	(9,315)	-	(3,214)
- EUR receivable on settlement (+)	**32,052**	**-**	-	-	3,201	-
- Other payable on settlement (-)	**-**	**(1,621)**	-	(2,247)	-	(2,150)
- Other receivable on settlement (+)	**1,158**	**-**	1,348	-	1,862	-
Fair value of foreign exchange forwards and gross settled currency swaps	**581,674**	**(582,334)**	180,106	(179,248)	20,281	(20,093)
Net fair value of foreign exchange forwards and gross settled currency swaps		**(660)**	858		188	

Interest rate swaps. In March 2010 TBC Bank entered into an interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers the payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expired in November 2018. At the reporting date in 2017 the fair value of interest rate swaps was negative GEL 267 thousand (2016: negative GEL 1,055 thousand).

Information on related party balances is disclosed in Note 43.

41 FAIR VALUE DISCLOSURES

(a) Recurring fair value measurements. Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2018				31 December 2017				31 December 2016			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities measured at fair value through other comprehensive income (available for sale before 2018)												
- Government notes	**-**	**-**	**-**	**-**	-	-	-	-	-	1,016	-	1,016
- Certificates of Deposits of National Bank of Georgia	**-**	**14,985**	**-**	**14,985**	-	7,728	-	7,728	-	36,002	-	36,002
- Corporate bonds	**-**	**549,477**	**-**	**549,477**	-	328,761	-	328,761	-	150,073	-	150,073
- Netherlands Government Bonds	**-**	**66,760**	**-**	**66,760**	-	-	-	-	-	241,810	-	241,810
- Ministry of Finance Treasury Bills	**-**	**373,447**	**-**	**373,447**	-	319,745	-	319,745	-	-	-	-
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	**-**	**1,370**	**-**	**1,370**	-	1,747	-	1,747	-	508	-	508
NON-FINANCIAL ASSETS												
- Premises and leasehold improvements	**-**	**-**	**277,798**	**277,798**	-	-	283,905	283,905	-	-	229,549	229,549
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**1,006,039**	**277,798**	**1,283,837**	-	657,981	283,905	941,906	-	429,409	229,549	658,958
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
- Interest rate swaps included in other financial liabilities	**-**	**-**	**-**	**-**	-	267	-	267	-	1,055	-	1,055
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**-**	**2,030**	**-**	**2,030**	-	909	-	909	-	320	-	320
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**-**	**2,030**	**-**	**2,030**	-	1,176	-	1,176	-	1,375	-	1,375

There were no transfers between levels 1 and 2 during the year ended 31 December 2018 (2017: none; 2016: none).

41 FAIR VALUE DISCLOSURES CONTINUED

(a) Recurring fair value measurements (continued). The description of the valuation technique and the description of inputs used in the fair value measurement for level 2 measurements:

	Fair value at 31 December				
In thousands of GEL	**2018**	2017	2016	**Valuation technique**	**Inputs used**
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	**1,004,669**	656,234	428,901	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	**1,370**	1,747	508	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**1,006,039**	657,981	429,409		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps included in other financial liabilities	**-**	267	1,055	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	**2,030**	909	320	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**2,030**	1,176	1,375		

There were no changes in the valuation technique for the level 2 and level 3 recurring fair value measurements during the year ended 31 December 2018 (2017: none; 2016: none).

For details the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to

Note 15. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

41 FAIR VALUE DISCLOSURES CONTINUED

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed. Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2018				31 December 2017				31 December 2016			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS												
Cash and cash equivalents	**1,164,403**	**-**	**-**	**1,164,403**	1,428,771	-	-	1,428,771	944,767	-	-	944,767
Due from other banks	**-**	**37,384**	**-**	**37,384**	-	37,789	-	37,789	-	23,824	-	23,824
Mandatory cash balances with the NBG	**-**	**1,422,809**	**-**	**1,422,809**	-	1,033,818	-	1,033,818	-	990,642	-	990,642
Loans and advances to customers:												
- Corporate loans	**-**	**-**	**3,212,490**	**3,095,784**	-	-	3,292,352	2,425,766	-	-	2,085,249	1,972,129
- Consumer loans	**-**	**-**	**1,970,006**	**1,832,793**	-	-	2,125,733	2,041,887	-	-	1,877,490	1,798,412
- Mortgage loans	**-**	**-**	**2,702,768**	**2,684,295**	-	-	2,058,468	2,052,151	-	-	1,840,981	1,784,832
- Loans to micro, small and medium enterprises	**-**	**-**	**2,440,078**	**2,425,580**	-	-	1,891,528	1,805,549	-	-	1,606,448	1,578,329
Bonds carried at amortised cost	**-**	**660,915**	**-**	**653,703**	-	458,950	-	449,538	-	377,749	-	372,956
Investments in leases	**-**	**-**	**207,579**	**203,802**	-	-	145,877	143,836	-	-	95,907	95,031
Other financial assets	**-**	**-**	**152,889**	**152,889**	-	-	132,368	132,368	-	-	91,387	91,387
NON-FINANCIAL ASSETS												
Investment properties, at cost	**-**	**-**	**97,425**	**84,296**	-	-	85,012	79,232	-	-	123,852	95,615
TOTAL ASSETS	**1,164,403**	**2,121,108**	**10,783,235**	**13,757,738**	1,428,771	1,530,557	9,731,338	11,630,705	944,767	1,392,215	7,721,314	9,747,924
FINANCIAL LIABILITIES												
Due to credit institutions	**-**	**3,028,182**	**-**	**3,031,505**	-	2,650,156	-	2,644,714	-	2,199,415	-	2,199,976
Customer accounts	**-**	**5,891,364**	**3,569,222**	**9,444,746**	-	4,995,970	2,951,983	7,835,323	-	4,004,205	2,468,481	6,461,582
Debt securities in issue	**-**	**13,343**	**-**	**13,343**	-	20,695	-	20,695	-	23,508	-	23,508
Other financial liabilities	**-**	**76,175**	**-**	**76,175**	-	78,598	-	78,598	-	48,778	-	48,778
Subordinated debt	**-**	**648,803**	**-**	**650,919**	-	425,808	-	426,788	-	369,320	-	368,381
TOTAL LIABILITIES	**-**	**9,657,867**	**3,569,222**	**13,216,688**	-	8,171,227	2,951,983	11,006,118	-	6,645,226	2,468,481	9,102,225

The fair values in the level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was calculated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 3). Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the Group could be required to pay the amount.

There were no changes in the valuation technique for the level 2 and level 3 measurements of assets and liabilities not measured at fair values in the year ended 31 December 2018 (2017: none; 2016: none).

42 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the measurement purposes, IFRS 9, classifies financial assets into the categories discussed in Note 4. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2018:

In thousands of GEL	**Amortised cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Total**
ASSETS				
Cash and cash equivalents	**1,164,403**	**-**	**-**	**1,164,403**
Due from other banks	**37,384**	**-**	**-**	**37,384**
Mandatory cash balances with the National Bank of Georgia	**1,422,809**	**-**	**-**	**1,422,809**
Loans and advances to customers	**10,038,452**	**-**	**-**	**10,038,452**
Investment securities measured at fair value through other comprehensive income	**-**	**1,005,239**	**-**	**1,005,239**
Bonds carried at amortised cost	**653,703**	**-**	**-**	**653,703**
Other financial assets:				
- Other financial receivables	154,259	-	-	154,259
TOTAL FINANCIAL ASSETS	**13,471,010**	**1,005,239**	**-**	**14,476,249**
INVESTMENTS IN LEASES	**-**	**-**	**-**	**203,802**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**772,837**
TOTAL ASSETS	**-**	**-**	**-**	**15,452,888**

For the periods before 1 January 2018: for the measurement purposes, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	1,428,771	-	-	-	1,428,771
Due from other banks	37,789	-	-	-	37,789
Mandatory cash balances with the National Bank of Georgia	1,033,818	-	-	-	1,033,818
Loans and advances to customers	8,325,353	-	-	-	8,325,353
Investment securities available for sale	-	657,938	-	-	657,938
Bonds carried at amortised cost	449,538	-	-	-	449,538
Investments in leases	-	-	143,836	-	143,836
Other financial assets:					
- Other financial receivables	132,368	-	-	1,767	134,135
TOTAL FINANCIAL ASSETS	11,407,637	657,938	143,836	1,767	12,211,178
NON-FINANCIAL ASSETS	-	-	-	-	726,020
TOTAL ASSETS	-	-	-	-	12,937,198

42 PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY CONTINUED

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	944,767				944,767
Due from other banks	23,824	-	-	-	23,824
Mandatory cash balances with the National Bank of Georgia	990,642	-	-	-	990,642
Loans and advances to customers	7,133,702	-	-	-	7,133,702
Investment securities available for sale		430,703			430,703
Bonds carried at amortised cost	372,956	-	-	-	372,956
Investments in leases		-	95,031	-	95,031
Other financial assets:					
- Other financial receivables	91,387	-	-	508	91,895
TOTAL FINANCIAL ASSETS	9,557,278	430,703	95,031	508	10,083,520
NON-FINANCIAL ASSETS	-	-	-	-	678,239
TOTAL ASSETS	-	-	-	-	10,761,759

As of 31 December 2018 all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets fair value through profit or loss measurement category under IFRS 9.

As of 31 December 2017 and 2016, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the assets held for trading measurement category under IAS 39.

43 RELATED PARTY TRANSACTIONS

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

- Parties with more than 10% of ownership stake in the TBC Bank Group or with representatives in the Board of Directors are considered as Significant Shareholders.
- The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members. Entities under common control include TBC Bank Group PLC's Insurance subsidiary.

Transactions between TBC Bank Group and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

The definition of the related party is different per standards of National Bank of Georgia and is regulated by the published Decree N 26/04 of the Governor of the National Bank of Georgia (link to the document below in the footnote[4]).

As of 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of GEL	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 0.4% – 48.0%)	-	1,614	11,407	-
Impairment provisions for loans and advances to customers	-	-	9	-
Customer accounts (contractual interest rate: 0.0% – 10.2 %)	81,311	27,095	21,328	11,123
Guarantees	-	10,216	-	35
Provision on guarantees	-	36	-	-

The income and expense items with related parties except from key management compensation for the year 2018 were as follows:

In thousands of GEL	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Interest income - loans and advances to customers	-	22	591	-
Interest expense	5,879	411	301	563
Gains less losses from trading in foreign currencies	-	479	65	25
Foreign exchange translation gains less losses	-	28	352	-
Fee and commission income	3	87	50	8
Administrative and other operating expenses (excluding staff costs)	-	89	297	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2018 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	2,465	13,547	-
Amounts repaid by related parties during the year	(1,055)	(10,195)	-

During the year 2018, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2018 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2018 would have been GEL 214,767 thousand lower.

4 https://www.nbg.gov.ge/uploads/legalacts/fts/eng/regulation_on_the_management_of_the_conflict_of_interests.pdf

43 RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2018, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**Balance as of 31 December 2018**
Gross amount of loans and advances granted to subsidiaries	**64,782**
Customer accounts of subsidiaries	**36,971**
Bonds Carried at Amortised Cost	**190**
Other Financial Assets	**10,995**
Other Assets	**495**
Other Financial Liabilities	**2,405**
Investment in subsidiaries	**26,761**

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**2018**
Interest income	**5,423**
Interest expense	**2,556**
Fee and commission income	**1,757**
Fee and commission expense	**15,857**
Foreign exchange translation gains less losses	**56**
Other operating income	**121**
Administrative and other operating expense	**5,001**

As of 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of GEL	**Immediate parent**	**Significant shareholders**	**Key management personnel**	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 0.4% - 36.0%)	-	154	7,112	-
Impairment provisions for loans and advances to customers	-	-	11	-
Customer accounts (contractual interest rate: 0.0% – 11.8 %)	11,621	40,100	11,190	6,874
Guarantees	-	9,901	512	14
Other borrowed funds	24,000	-	-	-
Provision on guarantees	-	30	2	-

43 RELATED PARTY TRANSACTIONS CONTINUED

The income and expense items with related parties except from key management compensation for the year 2017 were as follows:

In thousands of GEL	Note	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Interest income - loans and advances to customers		-	20	444	-
Interest income - available securities for sale		-	747	-	-
Interest expense		1,807	928	449	398
Gains less losses from trading in foreign currencies		-	189	56	15
Foreign exchange translation gains less losses		-	(46)	(36)	-
Fee and commission income		9	122	94	8
Fee and commission expense		-	104	-	-
Administrative and other operating expenses (excluding staff costs)		-	58	239	-
Net loss on derivative financial instruments	40	-	46	-	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2017 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	573	3,012	-
Amounts repaid by related parties during the year	(1,293)	(3,920)	-

As of 31 December 2017, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	Balance as of 31 December 2017
Gross amount of loans and advances granted to subsidiaries	46,546
Customer accounts of subsidiaries	48,046
Bonds Carried at Amortised Cost	184
Other Financial Assets	18,957
Other Assets	495
Other Financial Liabilities	2,065
Investment in subsidiaries	32,796

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	2017
Interest income	3,345
Interest expense	2,593
Fee and commission income	297
Fee and commission expense	15,276
Other operating income	588
Administrative and other operating expense	3,353

43 RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Gross amount of loans and advances to customers (contractual interest rate: 6.3%-20.0%)		-	900	7,612	-
Impairment provisions for loans and advances to customers		-	2	26	-
Derivative financial liability	40	-	1,055	-	-
Due to credit institutions (contractual interest rate: 5.7%–9.7%)		-	257,415	-	-
Customer accounts (contractual interest rate: 0.0%-13.5%)		2,719	38,998	14,548	4,314
Other borrowed funds		2,000	-	-	-
Guarantees		-	28,509	-	-
Provision on guarantees		-	192	-	-

The income and expense items with related parties except from key management compensation for the year 2016 were as follows:

In thousands of GEL	Note	Immediate parent	Significant shareholders	Key management personnel	Companies under common control
Interest income		32	160	399	-
Interest expense		1,181	16,254	503	41
Gains less losses from trading in foreign currencies		-	115	18	-
Foreign exchange translation gains less losses		-	191	465	-
Fee and commission income		1	70	13	-
Fee and commission expense		-	580	-	-
Administrative and other operating expenses (excluding staff costs)		-	1	155	-
Net loss on derivative financial instruments	40	-	206	-	-

The aggregate loan amounts advanced to, and repaid, by related parties during 2016 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Companies under common control
Amounts advanced to related parties during the year	7,264	10,568	-
Amounts repaid by related parties during the year	(9,596)	(5,722)	-

43 RELATED PARTY TRANSACTIONS CONTINUED

As of 31 December 2016, transactions and balances of JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**Balance as of 31 December 2016**
Gross amount of loans and advances granted to subsidiaries	24,359
Cash and cash equivalents	132,875
Due from other banks	17,029
Bonds Carried at Amortised Cost	188
Other Financial Assets	29,898
Other Assets	443
Investment in subsidiaries	383,124
Customer accounts of subsidiaries	18,905
Due to other banks	33,672
Other Financial Liabilities	1,742

The income and expense items for JSC TBC Bank with its subsidiaries were as follows:

In thousands of GEL	**2016**
Interest income	2,464
Interest expense	1,506
Fee and commission income	1,649
Fee and commission expense	10,044
Other operating income	27,425
Administrative and other operating expense	2,648

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

	2018		2017		2016	
In thousands of GEL	**Expense**	**Accrued liability**	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	**11,094**	**270**	11,013	-	12,076	-
Cash settled bonuses related to share-based compensation	**6,424**	**8,395**	3,905	9,772	7,336	10,715
Equity-settled share-based compensation	**9,369**	**-**	8,469	-	9,923	-
Total	**26,887**	**8,665**	23,387	9,772	29,335	10,715

44 BUSINESS COMBINATION

Acquisition of Bonaco. On 31 October 2018, the Bank won the auction held by National Bank of Georgia for the acquisition of Bonaco LLC, microfinance organization. The business process of merger has been finalized in December 2018. The transaction is in line with Bank's strategy to enhance its product offering to its customers. Bonaco LLC was offering gold pawn and mortgage products to its customers and was added to the respective portfolio for products and services offered to TBC Bank customers.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In thousands of GEL	
Cash consideration paid	**10**
Non-cash consideration	**14,582**
Total purchase consideration	**14,592**

44 BUSINESS COMBINATION

Acquisition of Bonaco. Non-cash consideration includes the fair value as at acquisition date of the loan issued from the Bank to the Bonaco.

Details of the assets and liabilities acquired and goodwill arising is as follows:

In thousands of GEL	Note	Provisional Fair Values
Cash and cash equivalents		**819**
Placements with banks		**1,581**
Loans to customers*		**20,212**
Property and equipment		**6,922**
Repossessed assets		**55**
Other assets		**156**
Amounts due to customers		**(17,691)**
Other Liabilities		**(29)**
Fair value of acquired interest in net assets of subsidiary		**12,025**
Goodwill arising from the acquisition	17	**2,567**
Total purchase consideration		**14,592**
Less: Non-cash consideration		**(14,582)**
Less: cash and cash equivalents of subsidiary acquired		**(819)**
Inflow of cash and cash equivalents on acquisition		**809**

*The carrying amount of Loans to customers before fair value adjustments amounted to GEL 19,339 thousand.

The goodwill is primarily attributable to the profitability of the acquired business and the significant synergies expected to arise.

The acquired business combination contributed to Group's net revenue in the amount of GEL 212 thousand and to Group's net profit in the amount of GEL 15 thousand from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1st of January 2018, the contribution to the Group's net revenues for the year ended 31 December 2018 would have been of GEL 1,489 thousand and to net profit would have been negative of GEL 11 thousand.

45 EVENTS AFTER REPORTING PERIOD

In February 2019 the Bank completed negotiations with National Bank of Georgia regarding their focused inspection carried out in second half of 2018. The Bank agreed to pay GEL 1,105 thousand and work on restructuring its supervisory board (whereby chairman and deputy chairman will need to step down from JSC TBC Bank but will continue to serve as Chairman and Deputy Chairman of TBC Bank Group PLC). NBG confirmed the joint public statement that the matter has been resolved.

i A full list of related undertakings and the country of incorporation is set out below:

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	80 Chavchavadze Avenue, 0162,, Tbilisi, Georgia
TBC Kredit LLC	71-77, 28 May Street, AZ1010, Baku, Azerbaijan
Banking System Service Company LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Pay LLC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
Real Estate Management Fund JSC	7 Marjanishvili Street, 0102, Tbilisi, Georgia
TBC Invest LLC	7 Jabonitsky street, , 52520, Tel Aviv, Israel
Index LLC	8 Tetelashvili,0102,, Tbilisi, Georgia
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
LTD Online Tickets	3 Irakli Abashidze street, 0179, Tbilisi, Georgia

TBC Bank
7 Marjanishvili street
Tbilisi, 0102, Georgia