TBC BANK Group PLC

ANNUAL REPORT 2017


25
YEARS OF
GROWTH
INNOVATION
BUSINESS SUPPORT
CORPORATE RESPONSIBILITY

TBC Bank

TBC Bank[1], Georgia's largest banking group, celebrates its 25th anniversary of growth, innovation, customer support and corporate responsibility. Built from scratch in 1992, soon after the country's independence in 1991, TBC Bank's substantial growth mirrors the country's fast-paced development over the last 25 years[2]. Today, TBC Bank is a FTSE 250 constituent with a listing on the London Stock Exchange's premium segment.

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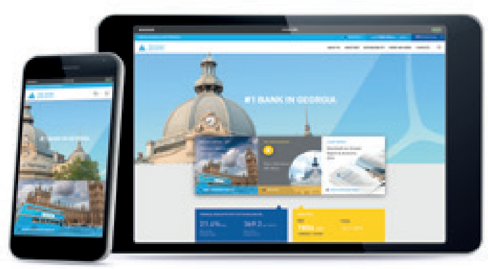


For more information visit our website www.tbcbankgroup.com

1 TBC Bank Group PLC (the Company), the UK-incorporated parent company of JSC TBC Bank (the Bank) and its subsidiaries (together TBC Bank or the Group)
2 Source: Geostat

FINANCIAL HIGHLIGHTS

Underlying net profit (GEL million)

35.1% growth

2017	369.2
2016	273.3
2015	218.7

Reported net profit (GEL million)

20.7% growth

2017	359.9
2016	298.3
2015	218.7

Underlying return on average equity

0.8pp growth

2017	21.4%
2016	20.6%
2015	20.1%

Underlying return on average assets

0.4pp reduction

2017	3.2%
2016	3.6%
2015	3.4%

Underlying cost to income ratio

2.4pp reduction

2017	40.5%
2016	42.9%
2015	43.9%

Cost of risk

0.2pp growth

2017	1.2%
2016	1.0%
2015	1.7%

Total assets (GEL million)

20.4% growth

2017	12,965.9
2016	10,769.0
2015	6,935.0

Total deposits (GEL million)

21.1% growth

2017	7,816.8
2016	6,454.9
2015	4,177.9

Gross loans (GEL million)

16.2% growth

2017	8,553.2
2016	7,358.7
2015	4,639.0

Non-performing loans

0.2pp reduction

2017	3.3%
2016	3.5%
2015	4.8%

21.4%
UNDERLYING RETURN ON EQUITY

OPERATIONAL HIGHLIGHTS

159
Branches
167 (2016)

2.2m
Customers
2.2m (2016)

7,084
Employees
6,292 (2016)

2,790
Self-service terminals
2,500 (2016)

14,824
POS terminals
13,220 (2016)

480
ATMs
531 (2016)

88.3%
Offloading ratio
84.1% (2016)

31.4%
Mobile banking penetration ratio
24.2% (2016)

25 YEARS OF SUCCESS

TBC Bank has affirmed its leading position as Georgia's largest banking group with its outstanding financial performance, superior customer experience, strong brand and best-in-class digital banking channels.

We continue to innovate and develop unique digital solutions in line with our strategy of becoming the best digital financial services company in the region[1], while customer satisfaction remains at the heart of everything we do. We acknowledge responsibility towards all our stakeholders and are focused on achieving strong financial results and maximising our shareholders' returns, as well as creating value for our customers, employees, community and environment.

What we do

TBC Bank is the number one banking group in Georgia by all key metrics, including total assets, total loans and total deposits[2]. While our main business activities include retail, micro, small and medium enterprises (MSME) and corporate banking, we also offer other financial services through our subsidiaries, including leasing, insurance, brokerage and corporate advisory products. TBC Bank has strong coverage across the country through its well-developed multichannel network serving around 75% of Georgia's adult population.

Our vision

To be the best digital financial services company in the region[1]

Strategic priorities

- Deepen our relationship with customers and deliver sustainable growth
- Further enhance the digital capabilities of our best-in-class multichannel platform
- Further improve customer experience
- Increase operational efficiency and automation
- Proactively manage net interest margin

Find out more about our strategy on pages 24-27

1 Region in this context comprises Armenia, Azerbaijan and Georgia

Retail banking

TBC Bank is the undisputed leader in the retail segment, which it has been serving since 2006. We work diligently to offer our clients the best products and services in the market. We are committed to building trusted, mutually beneficial relationships with our customers by concentrating on their financial needs and offering them well-suited banking solutions. Customer satisfaction is a vital part of our success and we are dedicated to delivering a unique experience in all our channels. We also pride ourselves on having advanced private banking offerings for our affluent and high-net-worth individuals, which include dedicated multichannel, full life cycle management, tailor-made products and value-added services.

49% in total loan book, **56%** in total deposits

Corporate and investment banking (CIB)

TBC Bank has a well-deserved leading position in the corporate segment due to its advisory model, focus on long-term partnership, top-quality financial products and services, and highly experienced and professional team. We have a strong presence and a diversified portfolio across all major sectors of Georgia's economy, divided among dedicated coverage teams with strong sector knowledge. We have strong positions in traditional lending and trade finance products, and have also started introducing brokerage and advisory services through our subsidiary, TBC Capital. Thanks to our broad product offering and operational excellence, an increasing number of leading industry players are choosing TBC Bank as their core bank.

29% in total loan book, **31%** in total deposits

MSME banking

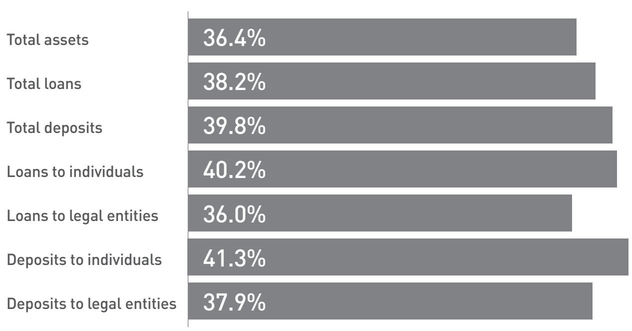
TBC Bank is the bank of first choice for most MSME clients, with 63%[3] of new companies registered in Georgia in 2017 opening accounts with TBC Bank. We do not find this surprising, since we put a lot of effort into developing the most convenient and innovative solutions for our clients. In addition, we differentiate ourselves by offering extensive non-financial services through our business support programme, which features various opportunities for training sessions, individual consultations, useful business tools and a renowned annual business award ceremony. This year, we have also undertaken an initiative to support the new generation of businesses in Georgia by launching a unique programme, focused on start-ups, that provides financial and non-financial services to early-stage companies.

22% **in total loan book,** **13%** **in total deposits**

Find out more about our segments on pages 30-53

Number one market position by all key metrics

MARKET SHARES[2]



2 Based on data published by the National Bank of Georgia as of 31 December 2017
3 Data is for FY 2017, source: www.napr.gov.ge, the National Agency of Public Registry

Our people are key to our success

We consider our people to be one of our most valuable assets and the key to our success. We employ more than 7,000 highly skilled, loyal and motivated people, who together form a big "TBC family".

Engagement index of 91%

Find out more about our people on pages 75-78

Corporate responsibility

We strive to make a difference for Georgia, not only by contributing to economic development, but also by faithfully serving our customers, protecting our country's cultural heritage, promoting national sports, supporting the young generation through various projects and initiatives, and caring for the environment.

Find out more about our corporate responsibility on pages 74-81

25 YEARS OF GROWTH

TOTAL ASSETS

2017

₾13.0 bn

$500

1992

WHY INVEST IN TBC BANK?

We base our strategy on understanding our customers' evolving preferences for using digital channels instead of branches and aim to become the best digital financial services company in the region[1] by developing the most intuitive, user-friendly and innovative digital solutions in the market.

1 Region in this context comprises Armenia, Azerbaijan and Georgia

Our four main competitive advantages are:

Focus on financial services

TBC Bank is focused on financial services activities and 99.7% of our total assets relate to banking, insurance, leasing, brokerage and corporate advisory services. We have several small subsidiaries, including card processing and a self-service terminal operating company, which play a supporting role to strengthen our core business. Over the past 25 years, we have built a sound, straightforward and resilient operating model, as well as gained strong business expertise and market knowledge. Our clear strategic focus and experience provides a significant advantage and solid basis for our future growth and development, and clearly differentiates us from our peers.

Financial service activities account for 99.7% of TBC Bank's total assets

Best-in-class digital channels

We continue to leverage our leading digital capabilities to achieve business growth and operating efficiency. TBC Bank has world-class digital banking channels, which include the award-winning internet and mobile banking applications, a call centre and a vast network of ATMs, POS terminals and self-service terminals. Due to our continued efforts, the number of retail transactions conducted via digital channels continues to grow, resulting in a retail offloading ratio as high as 88.3% in December 2017. At the same time, we continue to innovate and enhance our digital product offerings. This year, we have developed and introduced the first Georgian-speaking chatbot, Ti Bot, using Facebook Messenger. It can understand questions and provide helpful answers about currency exchange rates, various product offerings, branch and ATM locations, as well as conduct P2P transactions and purchase cinema tickets. We are also proud that our digital capabilities gained global recognition and Global Finance magazine named TBC Bank the world's "Best Integrated Corporate Bank Site" in 2017, in addition to receiving multiple regional (CEE) and country awards in many digital banking categories.

Global Finance named TBC Bank the world's "Best Integrated Corporate Bank Site" in 2017

Superior customer experience

We pride ourselves on having the highest customer satisfaction score in the Georgian banking sector, including the NPS and CSAT scores[2]. We achieved this by fostering a customer-focused culture, where every employee strives to create maximum comfort and value for our customers. We base our customer satisfaction on four main principles: (i) simplicity and comfort; (ii) professionalism and stability; (iii) individual approach and (iv) care. We are dedicated to providing the best customer experience in Georgia by constantly improving our service proposition and offering the most competitive and innovative solutions in the market. Our goal is to be able to anticipate our customers' preferences to offer them the right products and services at the right time. We also continuously work to simplify customer service processes and eliminate unnecessary procedures in order to create a pleasant experience for our clients. Our customers' feedback is very important to us, and we listen carefully to our clients and value their opinions.

Strong brand

For 25 years, we have been supporting the growth and prosperity of our customers, colleagues, partners and the community at large. We have always acted with integrity and transparency in all our undertakings, acknowledging our responsibility towards all our stakeholders. We strive to generate added value for our customers by creating straightforward and flexible products and services. We aspire to foster the best working environment for our employees and build long-term relationships with our partners, as well as make a positive contribution to society by supporting business, culture, sports and the young generation. As a result, TBC Bank today is one of the most well-known and trusted brands in the country. We are associated with creating opportunities for young people and businesses, supporting innovation and progress. TBC Bank has also gained international recognition and, among other things, received country, regional and global awards, including "Best Bank in Georgia" awards from Global Finance, EMEA Finance, Euromoney and the Banker magazines for many years in a row (Find out more about our awards at www.tbcbankgroup.com).

NPS: gap with peer Bank-16.7%[2], CSAT: gap with peer Bank-16.6%[2]

TBC Bank has been awarded "Best Bank in Georgia" 14 times in the last 16 years

2 Based on surveys conducted by independent research companies ACT and IPM in December 2017

CHAIRMAN'S STATEMENT

Dear shareholders,

It is with great pleasure that I present our 2017 annual report. As the year also marks our 25th anniversary, I would like to reflect on where we started and how far we have come over this past quarter of a century.

Mamuka Khazaradze
Chairman

We established TBC Bank in 1992, shortly after Georgia had restored its independence following the collapse of the Soviet Union. We have since grown side-by-side with our country throughout its economic and political development. As Georgia lacked a functioning financial system at the time of TBC Bank's inception, we became true pioneers in establishing a well-run banking institution with a long-term perspective.

We set ourselves a challenging task: to build a banking business that would earn trust and credibility with our customers. For that reason, from the outset, we adopted a customer-centric approach in our business. To help achieve our goal, we have sought to employ people who share our mindset and have created a strong, committed team with common values.

Over the past 25 years, TBC Bank has been growing together with its customers, supporting them in meeting their financial needs, helping them to achieve success and contributing to the entire country's development.

Today, we take pride in being the largest privately-owned bank in the region[1]. In addition to our strong team spirit, we attribute our continued success to having one of the most recognised brands in Georgia, a superior customer experience, the best multichannel network and a full range of innovative services and products.

Strategy

We believe that TBC Bank's future success depends on its digital competence, as customers are increasingly shifting towards digital banking. The banking industry is entering a digital era and we need to stay abreast of upcoming changes. Last year, we announced an updated strategy to become the best digital financial services company in the region[1]. We remain committed to this strategy.

We are also focused on our customer experience. We have made significant efforts to anticipate our customers' needs and offer them the best products and services. We measure customer satisfaction regularly to identify areas that need improvement, and we work diligently to enhance our offerings. We pride ourselves on having the highest customer satisfaction scores in the Georgian banking sector[2], as well as on holding leading positions in the country's broader retail industry.

We will continue to use our strengths to keep growing with the market and more actively engage with our customers by creating innovative, value-added solutions for them. At the same time, we will remain focused on operating efficiency and automation to become more agile in our fast-changing environment.

Key achievements

In May, we successfully completed the integration of Bank Republic, well ahead of schedule. As a result, we have expanded our distribution network and increased our client base by around 380,000 customers, all of whom now have full access to our innovative range of products and services.

Another significant development in 2017 was the inclusion of our shares into the FTSE 250 Index, reflecting the improved liquidity of our shares and the increased valuation of our business. Since then, we have begun to benefit from a more diversified shareholder base and are seeing greater interest from potential investors.

1 Region in this context comprises Armenia, Azerbaijan and Georgia
2 Based on surveys conducted by independent research companies: IPM and ACT
3 According to data as of 31 December 2017 published by the National Bank of Georgia

Over the past year, we made good progress towards our updated strategy of becoming the best digital financial services company in the region[1]. The number of transactions and sales conducted in remote channels continue to grow rapidly, as do internet and mobile banking penetration levels. We also launched the first Georgian-speaking chatbot,Ti Bot, which allows customers to conduct simple banking transactions via Facebook Messenger. It also provides useful information about our products, as well as entertainment events and weather forecasts. The chatbot has been well received by our customers and has become a highly popular channel, attracting more than 124,000 users since its launch in March 2017.

Our strong operating performance during 2017 translated into robust financial results. For 2017, TBC Bank recorded an underlying net profit of GEL 369.2 million, up 35.1% year-on-year. In addition, our underlying return on equity and return on assets stood at a respective 21.4% and 3.2%. In terms of our loan book, our loan portfolio grew by 16.2% year-on-year, leading to a market share of 38.2%[3].

Operating environment

2017 was another remarkable year in Georgia's continued development. The country's citizens were granted visa-free access to the Schengen zone, which is a significant advancement and will support our deeper integration with the EU countries. Visa liberalisation would also have a positive impact on tourism, leading to increased awareness about Georgia and greater tourist inflow from the EU. The country is already being promoted as one of the best places to visit, including by many reputable magazines[4], which have named it in their lists of the top 10 tourist destinations.

In 2017, Georgia recorded strong economic growth with GDP reaching 5.0%[5], which is one of the largest increases among countries in the CIS and Eastern Europe. This improvement was mainly driven by high tourism income and an increase in net exports. Another positive factor was the improvement in the current account deficit, which decreased to 7.1% of GDP[6] for 9M 2017, compared with 11.2% a year earlier, indicating that the country is experiencing more sustainable economic development.

Other important developments in 2017 included the official opening of the long-awaited Baku-Tbilisi-Kars railway and the beginning of a new phase of development at Anaklia Deep Sea Port, where construction work started in December. These projects will strengthen Georgia's position as a regional tourism and transportation hub, as it offers the shortest route to connect the economies of China and countries in Central Asia to those of European countries. These transportation links, coupled with free trade agreements with the EU, China and all major economic powers in the broader region, will further support the growth of Georgia's economy and diversify trade exports.

Finally, Georgia regained its position among the top 10 countries in the World Bank's Doing Business 2018 ranking, moving up by seven positions to ninth place to become the best performer in Europe and Central Asia. This outstanding performance in these rankings highlights the government's continued efforts to improve the business environment and to make Georgia one of the world's most attractive places to do business.

Governance

TBC Bank is committed to the highest standards of corporate governance and business transparency. Our experienced Board of Directors takes the leading role in framing our strategy, overseeing our risk management and challenging our performance. With their diverse and unique skillsets, our Directors help to guide our strategic development and create sustainable value for our stakeholders.

I would like to thank all our Directors for their active involvement and valuable contribution towards our achievements in 2017. I firmly believe that, together, we are well positioned to realise our strategy of becoming the best digital financial services company in the region[1].

As already announced, two non-executive Directors, Stefano Marsaglia and Stephan Wilcke will be leaving TBC Bank and stepping down from the Board as and when suitable replacements are found during 2018. I would like to extend the Board's thanks to both Stefano and Stephan for their important contributions to TBC Bank and we wish them every success in the future.

Acting responsibly

Corporate responsibility has always been one of our overriding values. During the past 25 years, TBC Bank has actively supported culture, sports, young talent and other important social projects. We continue to hold a firm belief and commitment to supporting the community, the environment, the human rights, and our wider stakeholders, including our shareholders, employees and customers. We also aspire to conduct business in a way that promotes high ethical standards, values and encourages our employees to act with integrity and responsibility towards each other and our customers, partners and community.

This year, we launched an innovative platform, statusdonates.ge, which focuses on supporting success and features short videos about individuals and organisations that need financing, enabling people to select a specific cause that they would like to promote and support.

We remain long-term partners with the Georgian Rugby Union and are the title sponsor of the national rugby team. In 2017, Georgia hosted the World Rugby Under-20 Championship and we actively promoted the games using our social and media channels, helping to attract many fans to the stadiums. This championship put Georgia on the international sports map and introduced world rugby fans to the country from a different angle.

Outlook

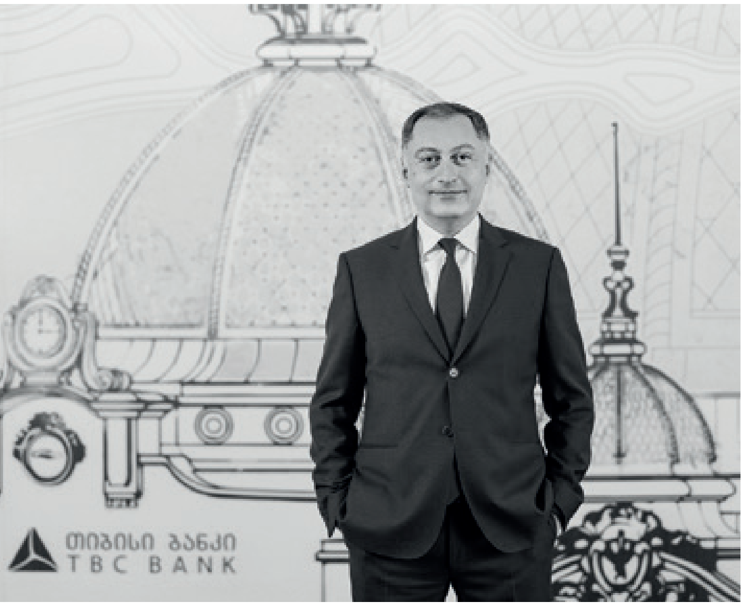
While we have achieved significant success over the past 25 years, we continuously seek ways to improve our business. We remain eager to go further after achieving each new accomplishment. We will continue to innovate and offer unbeatable digital solutions, a superior customer experience and tailor-made financial products. In 2018, we will progress towards our strategy of becoming the best digital financial services company in the region[1].

On behalf of the Board, I would like to express my deep gratitude to our management team, employees and partners for their continued hard work and dedication. I am confident that our joint efforts will enable us to achieve success in all our undertakings and create maximum value for all our stakeholders over the next 25 years.

Mamuka Khazaradze
Chairman
28 March 2018

4 Conde Nast Traveller, Vogue, and Lonely Planet
5 Source: Geostat
6 Source: NBG, Geostat

CEO LETTER



Dear shareholders,

In 2017, TBC Bank celebrated its 25th anniversary. The Bank was established during one of the most challenging periods in Georgia's recent history and our story today is an outstanding example of how to build a sustainable business.

Vakhtang Butskhrikidze
CEO

The driving force behind our success has always been a strong commitment to our goals, the dedication of our team and our clear long-term vision. The shareholders have entrusted me with the leadership of TBC Bank since 1998 and I am extremely proud of our accomplishments throughout these years. While TBC Bank has mostly grown organically, it has also strengthened its position through the acquisitions of Bank Constanta in 2011 and Bank Republic in 2016. Today, TBC Bank is the leading bank in Georgia and is well positioned to become the best digital financial services company in the region[1] due to our outstanding digital capabilities.

Highlights of 2017

TBC Bank delivered another strong financial performance in 2017, posting a record high net underlying profit of GEL 369.2 million, up by 35.1% year-on-year. Our strong profitability was underpinned by the integration of Bank Republic, which we completed well ahead of schedule in the second quarter of the year. We are using the merger to drive cost synergies and significantly improve our efficiency, delivering an underlying cost to income ratio of 40.5% in 2017. The integration has also increased our distribution network and expanded our customer base, allowing us to cross-sell our products to the newly acquired customers. As a result, our product per customer ratio in the retail segment increased to 3.9 in 2017, compared with 3.7 a year earlier.

In 2017, we recorded strong balance sheet growth, increasing our loan and deposit portfolios by a respective 16.2% and 21.1% year-on-year. As a result, we had market shares of 38.2%[2] of total loans and 39.8%[2] of deposits in Georgia. In line with our strategy, we also increased our net fee and commission income by 39.5% in 2017, mainly driven by settlement, card and trade finance operations. Robust growth, paired with a significant increase in net fee and commission income and improved efficiency, offset the expected reduction in the net interest margin and led to strong profitability. Our underlying return on equity was 21.4% and our underlying return on assets was 3.2%. At the same time, we continue to maintain sound asset quality and our ratio of non-performing loans was low at 3.3%.

I am pleased to report that we are on track towards achieving our strategic goal of becoming the best digital financial services company in the region[1]. Our customers benefit from our reliable and user-friendly internet and mobile banking applications, as well as from our wide network of self-service terminals, allowing them to conduct most banking transactions remotely. As a result, our offloading ratio in retail segment reached 88.3%, while our mobile banking penetration ratio increased by 7.2 percentage points year-on-year to 31.4%.

In 2017, we also introduced the first Georgian-speaking chatbot on Facebook Messenger, Ti Bot, which gained popularity in a very short time and attracted around 124,000 customers and received 6.5 million messages since launch in March. Ti Bot serves as an efficient new sales channel and can also be used to conduct simple banking transactions. In December, we also deployed a biometric voice recognition system in our call centre to simplify customer identification and improve the safety of our customers' personal and account data. We are the first bank in the region[1] to have implemented such a system.

We continue to deliver a superior customer experience by carefully analysing feedback received and continuously improving our products and service levels. Over the past year, we introduced a fully digital onboarding system for our business clients, allowing them to open a current account online and perform their transactions without delay. The usage of this service is increasing rapidly and, in December, around 20% of new legal entities registered online. We also launched a loyalty programme called Ertguli for our retail customers. Ertguli is a credit

1 Region in this context comprises Armenia, Azerbaijan and Georgia
2 Based on data published by the National Bank of Georgia as of 31 December 2017

card with a pre-approved instalment limit, which also allows customers to gather loyalty points and take advantage of special offers and discounts. This programme has proven extremely successful, helping to increase the use of our credit cards by 79.4% year-on-year.

On the corporate side, we continue to enhance our product offerings. To better serve our customers, we are currently developing comprehensive brokerage and corporate advisory services, aiming to offer corporate clients a "one-stop shop". On the MSME side, we launched a new financing programme called Startuperi for early-stage companies. The programme aims to support start-ups not only financially, but also by providing non-financial services, including training sessions, master classes and special discounts with TBC Bank's partners.

I am delighted with the first-year results of our newly acquired business, TBC Insurance, which grew rapidly in 2017. The number of customers increased to around 277,000 from just 3,000 at the time of the acquisition in October 2016. Our market share, excluding health insurance, reached 13.3%[3] as of 31 December 2017, compared with 3.5%[3] as of 31 December 2016, making us the third-largest player on the market and the second-largest player in retail segment, with market share of 28.9%[3].

Macroeconomic overview

2017 was quite a successful year for Georgia's economy. The country's GDP growth rate almost doubled from the levels seen over the past two years, reflecting improvements in the external environment and continued domestic reform efforts, which helped to strengthen the confidence of consumers and businesses in the country. In 2017, Georgia's GDP grew by around 5.0%[4], placing the country among the fastest-growing economies in CEE, as well as in the CIS region. Improved macroeconomic performance across all directions was reflected in the sovereign credit rating of the country. In September, 2017 Moody's upgraded Georgia's credit rating to Ba2 from Ba3 previously with the stable outlook. An improved trade and investment relationships, together with strengthened banking supervision framework, were named as underlying factors of the improved credit rating. Fitch also revised Georgia's credit rating outlook from stable to positive in March 2018 to reflect accelerating growth and improved resilience of the economy.

Georgia continues to benefit from its open trade policies with all major economic players in the region. Exports of goods went up by a solid 29.1% year-on-year in 2017, reflecting the recovery witnessed among the country's major trading partners. Starting from 2018, a free-trade agreement with China has entered into force, which should give additional impetus to Georgia's growing exports.

Tourism remained a source of strength for Georgia's economy, as the number of visitors exceeded 7.5 million in 2017, which represented a significant increase on previous years. Tourism revenue surged by 26.9% year-on-year in 2017 and remained one of the country's most important sources of foreign currency inflows. Georgia's growing image as an attractive year-round tourist destination is expected to continue to drive its economy.

Growth in lending and the broader economy were reinforcing each other throughout 2017. Banking sector lending to the economy increased by 17.8% year-on-year, while loans to legal entities rose by 10.4% year-on-year. After the subdued growth seen in 2015 and 2016, this suggests a revival of investment activity by local companies. The continuing trend of growing employment and household disposable income contributed to the 25.7% year-on-year growth of loans to individuals.

Another positive development in 2017 was the reduction of dollarisation of the banking sector, reflecting joint efforts of the public and financial sectors. At the year-end, the share of deposits denominated in foreign currency was down by 5.9[5] percentage points year-on-year at 65.3%, while the share of loans denominated in foreign currency was down by 8.3[5] percentage points year-on-year at 57.1%. Lower dollarisation together with a proven track record of sound macro and micro risk management have further supported the resilience of the banking sector, which traditionally positioned itself with high capital, liquidity and profitability ratios, low levels of non-performing loans, as well as a prudent regulatory framework.

Strategic priorities

Our strategic priorities for the coming years include:

- deepening our relationships with customers and delivering sustainable growth
- further developing the digital capabilities of our multichannel platform
- continuing to improve our customer experience
- increasing operating efficiency and automation
- proactively managing our net interest margin in the context of market maturity, competition and regulatory initiatives.

To strengthen our relationships with customers, we actively engage with them and offer an innovative range of products and services to maintain our leading positions. Currently, our retail customer base is more than 2 million people, which is around 75% of Georgia's adult population, providing us with vast opportunities to cross-sell and move clients further along our value chain.

In parallel to deepening our relationships with clients, we consistently provide a superior customer experience, as measured by the net promoter[6] and customer satisfaction[6] scores. On these metrics, TBC Bank ranks the highest in the Georgian banking industry. Moreover, we have one of the top net promoter scores among the leading service industries in the country.

As digital channels are vital to our long-term success, our team strives to further enhance our digital multichannel capabilities and offer reliable solutions to our customers. The number of transactions conducted via digital channels continues to grow, especially in mobile banking and self-service terminals, indicating customers' preferred digital channels.

I am confident that we are well positioned to implement our strategy. For the medium term, we maintain our guidance as follows:

- annual loan book growth of around 15%
- return on equity target of 20% or more
- cost to income ratio of below 40%
- dividend payout ratio of 25-35% of consolidated net profit.

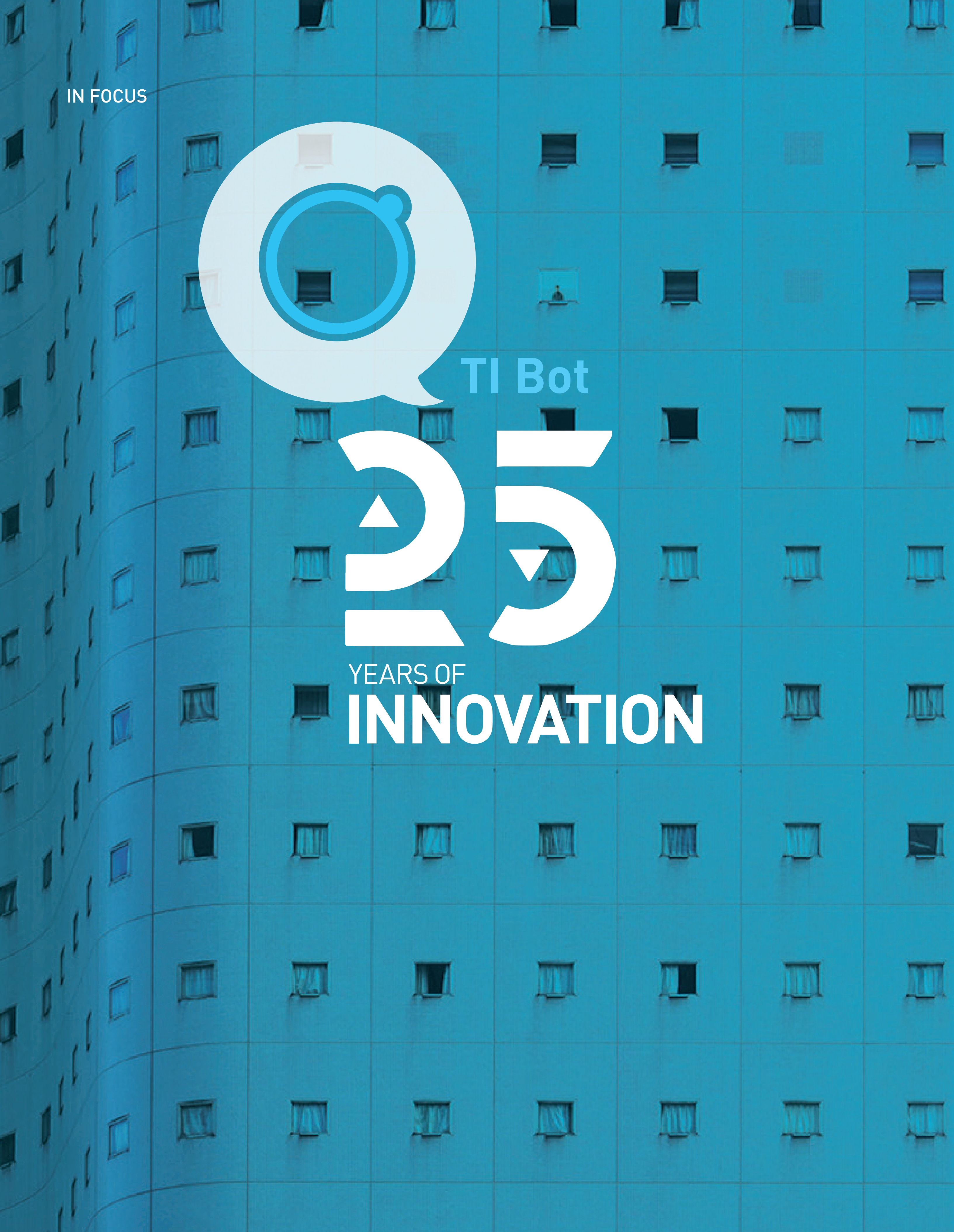
Acknowledgement

In 2017, we made significant progress towards achieving our goals. I would like to thank all my colleagues for their dedicated hard work and commitment. Over the past 25 years, we as a team have worked hard to build a success story. I am confident that we will continue to develop and set new standards for the region's[1] banking industry in 2018 and beyond.

The Strategic Report as set out on pages 2 to 103 was approved by the Board, and signed on behalf of the Board by:

Vakhtang Butskhrikidze
Chief Executive Officer
28 March 2018

3 Based on data provided by Georgia's State Insurance Supervision Service
4 Source: Geostat
5 Without foreign currency effect the decrease was 5.4pp for deposits and 7.8pp for loans
6 Based on survey conducted by independent research companies: ACT and IPM



TI Bot

25 YEARS OF INNOVATION

DIGITAL SERVICE

2017

THE FIRST GEORGIAN-SPEAKING CHATBOT

OUR FIRST INTERNET BANKING SERVICES

2001

MARKET OVERVIEW

Our operations are primarily based in Georgia and are focused on providing a full range of financial services to both retail and business customers. Georgia's growing role as a regional hub for tourism, trade, transport and logistics supports its position as one of the fastest-growing economies in CEE as well as in the CIS.

Economic growth and employment

In 2017, Georgia's real GDP growth accelerated to 5.0%, well above the 2.8% reported in 2016, amid a favourable external environment. Continued reform efforts and improved domestic business and consumer sentiment added more thrust to economic growth.

The economy benefitted from considerable positive spillover from the higher than expected growth in the EU, Georgia's largest trading partner. Most CIS countries started to recover from the slowdown experienced in 2014-16. This translated into a sharp increase in exports of goods, as well as higher tourism and remittance inflows from these countries.

Growth was synchronised across a broad range of economic sectors, mostly driven by services. In 2017, acceleration of growth was mostly on the back of the transport and communications and trade sectors. Transport and communications expanded by 6.2% YoY, compared with a contraction of 3.1% YoY in 2016, while the trade and repairs sector posted 6.6% YoY growth in 2017, up from 2.4% a year earlier. Growth remained in double digits in the construction sector (up 11.2% YoY) and hotels and restaurants (up 11.2% YoY), the former supported by higher public investments and the latter by a sharp increase of tourism inflows.

This solid macroeconomic performance was reflected in Moody's decision in September 2017 to upgrade Georgia's Sovereign credit rating from Ba3 to Ba2, maintaining the outlook at stable, due to the improved trade and investment relationship and the strengthened banking supervision framework. Fitch also revised Georgia's credit rating outlook from stable to positive in March 2018 to reflect accelerating growth and improved resilience of the economy.

The existing dynamics of decreasing unemployment and pick-up in jobs in business sector continued in 2017 as well. In 2017 employment in the business sector went up by 5.6% YoY.

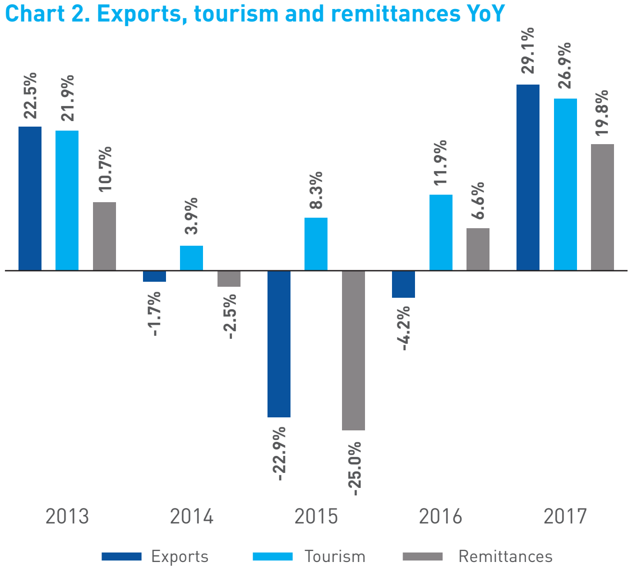
External inflows and exchange rate

Given the positive trend in external inflows, Georgia's current account balance improved markedly. In 9M 2017, the current account deficit stood at 7.1% of GDP, compared with 11.2% a year earlier. From the perspective of the saving-investment gap, the lower current account deficit was primarily due to the increased saving level in the country, which sets the stage for even more sustainable growth and a reduced current account deficit going forward.

Chart 1. Current account deficit and net foreign direct investment (% of GDP)

Source: National Bank of Georgia, National Statistics Office of Georgia (Geostat)

Chart 2. Exports, tourism and remittances YoY



In 2017, exports of goods surged by 29.1% YoY with diversified growth across different regions. Exports to CIS countries increased the most (up 60.0% YoY) due to the recovery seen in these economies, albeit from the low base of the previous year, as exports to the CIS had halved from 2013 to 2016. Exports continued to grow to the EU (up 13.0% YoY) and other countries (up 12.2% YoY) as well. Notable export growth to China continued (up 23.4% YoY), making it the fifth-largest destination for Georgian goods. The free trade agreement with China that came into effect from the beginning of 2018 should further boost Georgian exports to one of the world's largest markets.

Imports of goods increased by 9.4% YoY amid a domestic demand recovery and higher oil prices. Imports went up by 18.4% for petroleum products, by 10.6% for consumer goods and by 5.0% for capital and intermediate goods. The balance of trade in goods worsened slightly, edging down by 1.4%, or roughly US$ 70 million in absolute terms.

Tourism revenue grew by an estimated 26.9% YoY with the total number of visitors exceeding 7.5 million as Georgia is becoming an increasingly popular tourist destination for visitors from ever more countries. While its immediate neighbours still account for most incoming visitors, tourism inflows from the EU and Middle East have been on an upward trend.

Remittances climbed by 19.8% YoY, including by 15.1% YoY from the EU and by 15.6% YoY from the CIS. Growth of remittances from other countries stood at a sizeable 31.3% YoY. Among the latter group of countries, Israel and Turkey made the highest contributions with respective YoY increases of 96.1% and 25.6%.

The real effective exchange rate supported the competitiveness of Georgian goods and services exports, as it remained somewhat below its long-term trend, depreciating by 4.5% QoQ and 2.2% YoY in Q4 2017.

As of the year-end, the USD/GEL exchange rate appreciated by 2.1% YoY, while the EUR/GEL rate depreciated by 11.1%, reflecting the EUR strengthening against the USD. As expected, the stronger EUR coincided with improved growth in the EU, as well as higher commodity prices, which had an overall positive impact on the Georgian economy.

Inflation and monetary policy

Annual inflation as measured in terms of CPI was relatively high throughout 2017, reaching 6.7% by the year-end. Inflation exceeded the target as a result of the one-off increase of excise taxes on petroleum and tobacco and the customs tax on automobiles. In 2H 2017, higher oil prices and a weaker nominal effective exchange rate added to the inflationary pressure. To curb second-round effects on inflation, the National Bank of Georgia raised its policy rate by 0.25 pp to 7.25% in December 2017, where it remained at the year-end, as the pressure on prices from the exchange rate eased along with the appreciation of the GEL's nominal effective exchange rate. In its latest guidance, the National Bank of Georgia reported that inflation should align closer to the 3% target in 2018, when the one-off effects of the increased import taxes on petroleum, automobiles and tobacco will drop out of the CPI inflation figures. This is confirmed by the deceleration of annual inflation to 4.3% and 2.7% in January and February 2018, respectively.

The National Bank of Georgia continues to follow its inflation targeting framework, which calls for a flexible exchange rate to support economic growth and the GEL's long-term stability. For 2018, the inflation target was decreased to 3%, which should support a stronger nominal exchange rate for the GEL going forward.

Fiscal policy

The Ministry of Finance delivered on its commitment to maintain a sustainable budget deficit in 2017 while accelerating the pace of investment in public infrastructure. The budget deficit came in at 3.8% of GDP, down from 3.9% in 2016. As a percent of GDP, capital spending edged up from 4.1% in 2016 to 4.8% in 2017, while social expenditures declined from 10.0% to 9.3%, and government consumption[1] fell from 9.2% to 8.4%. The ratio of government consumption to GDP reached the lowest level of the past 10 years, reflecting the successful attempts to optimise government spending on salaries and the purchase of goods and services. Further steps were taken to enhance the cost efficiency of public institutions. Starting from 2018, the number of ministries was reduced from 18 to 14. This initiative is a welcome development from the perspective of reducing the bureaucratic burden.

The public debt level remains comfortable at around 44.0% of GDP as of the year-end, well below the upper limit of 60%.

In addition, the government has continued its efforts to increase the transparency of public finances. According to the 2017 assessment by the International Budget Partnership, Georgia ranked fifth among the 102 countries surveyed, indicating its high levels of transparency, oversight and public participation in the budgeting process. In the Open Budget Index ranking, Georgia outscored all EU countries except for Sweden and Norway.

Financial sector

The financial sector, dominated by banks, continues to grow under a prudent regulatory framework. In 2017, the banking sector's total assets increased by 14.7% YoY to GEL 34.6 billion.

The total loan portfolio increased by 17.8% YoY to GEL 22.3 billion, or 58.6% of GDP, while the growth excluding FX effect was 19.3%. The loan portfolio growth was primarily driven by loans in the national currency (up 46.3% YoY), while foreign currency loans increased by 5.0% (excluding foreign exchange effect).

In 2017, the National Bank of Georgia and the government introduced measures to reduce the economy's dependence on foreign currency, bringing down the share of the loan portfolio denominated in foreign currency. Additionally, new liquidity

1 Budget spending on salaries and goods and services

management instruments and an expanded collateral base allowed banks to promote lending in GEL more actively. The share of foreign currency deposits declined by 5.9 pp YoY (5.4 pp without the FX effect) to 65.3%, while the share of loans in foreign currency declined by 8.3 pp YoY (7.8 pp without the FX effect) to 57.1%.

The National Bank of Georgia has enhanced the capital adequacy framework according to the Basel III requirements. The new regulatory requirements are aimed at further increasing the banking sector's capacity to absorb any possible shocks in the future. The updates envisage the introduction of additional capital requirements for systemically important banks, as well as a countercyclical capital buffer. These requirements will be phased in gradually and will further increase the banking sector's resilience.

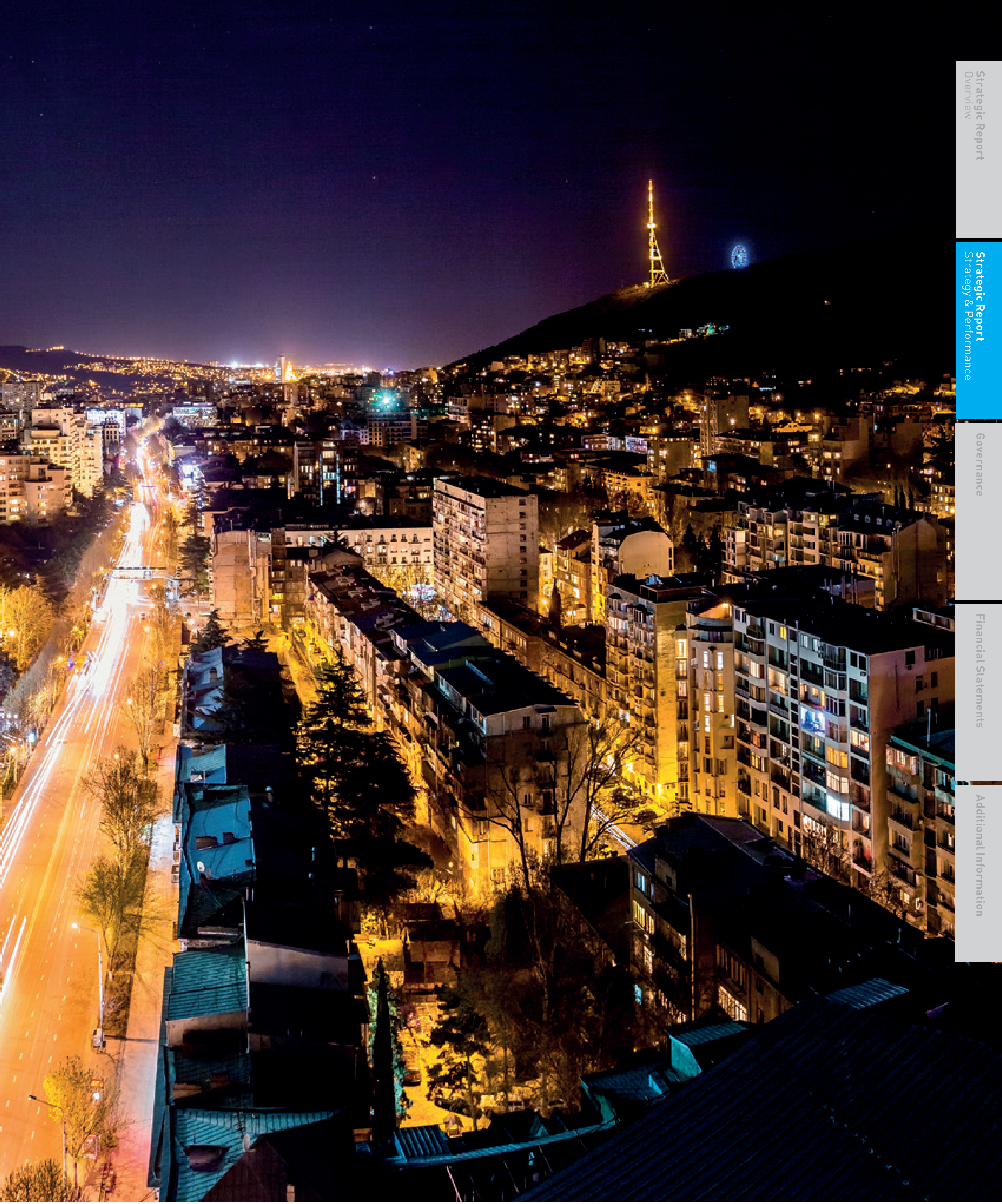
The quality of the financial sector's credit portfolio remains robust. In Q4 2017, the share of non-performing loans[1] in the total loan portfolio stood at 2.8%, down 0.3 pp QoQ and 0.7 pp YoY.

Going forward

In 2018, the International Monetary Fund (IMF) expects the momentum of global growth to remain high in advanced, emerging and developing market economies. Georgia's economy should continue to benefit from the healthy growth of its main trading partners, buoyed by the further expansion of inflows from exports, tourism and remittances.

Aside from the favourable external environment, ongoing structural reforms, improved trade and investment relationships and a strengthened banking supervision framework further improve the country's investment environment. For 2018, the IMF expects growth of 4.2% of GDP, while the European Bank for Reconstruction and Development (EBRD), the government and the National Bank of Georgia project a slightly higher rate of 4.5%. As for 2022, IMF forecasts GDP growth rate of 5.5%. Growth at these levels should allow Georgia to remain one of the fastest-growing economies in CEE and the CIS.

1 90 days past due loans



OUR KEY STRENGTHS

Our key strengths underpin our strategy and business model. As we live and operate in the era of digitalisation, our ambition has been translated into a clear vision to be the best digital financial services company in the region[1].

1 Region in this context comprises Armenia, Azerbaijan and Georgia.

Leading position in the market with a track record of growth and profitability

TBC Bank is the largest bank in Georgia by all key metrics, with market shares of 38.2%[2] and 39.8%[2] in total loans and total deposits respectively.

We continue to record strong organic growth and strengthen our positions by the acquisition and subsequent integration of Bank Republic in 2016 and 2017.

As a result, we recorded respective compound annual growth rates of 32.1% and 33.0% for loans and deposits over 2014-17 (26.2% and 30.2%, respectively, excluding Bank Republic). Over the same period, return on equity (ROE) for the full year stood above 20%, supported by strong interest and non-interest income, as well as improving cost efficiency.

Superior customer experience

We offer a superior customer experience in all our channels by caring about our customers' needs and constantly seeking to improve our service levels. We strive to create maximum value for our customers and eliminate unnecessary barriers in our communication.

We have the highest customer satisfaction scores[3] in the Georgian banking sector and hold a leading position across the country's entire retail industry.

Straightforward business model focused on financial service activities

We have a straightforward business model focused on financial service activities.

This allows us to fully concentrate on our strategy and execution, as well as to build trusted relationships with our business clients.

We invest in subsidiaries that operate in financial services and related fields, and support the expansion of our business.

Leading partner for businesses in Georgia

Our business model is based on building long-term partnerships with businesses, guiding and supporting them at every stage of their development.

We have been growing together with our business customers from the very beginning of Georgia's independence. Over the past 25 years, we have gained strong market expertise and a solid understanding of our customers' financial needs. This allows us to offer them the right solutions at the right time.

To further support our business customers, we offer added-value, free-of-charge non-financial services, including various training courses, individual consultations and conferences.

2 Based on data published by the National Bank of Georgia as of 31 December 2017

3 Based on surveys conducted by independent research companies IPM and ATC

Strong brand

TBC Bank is one of the most trusted and reputable brands in Georgia.

We are not only the first bank of choice for customers, but are also widely recognised as one of the most desirable employers and the leading company in the country in terms of corporate responsibility.

We are proud to have been named "Best Bank in Georgia" for many years in a row by leading international financial magazines, including Global Finance, EMEA Finance, Euromoney and the Banker.

Our listing on the London Stock Exchange's premium segment and inclusion in the FTSE 250 Index have further strengthened our brand in both local and international markets.

Skillful and engaged team

Our people play a vital role in our success and we are committed to building the best team by coaching, engaging and motivating them to excel in their areas of responsibility and beyond.

We have a strong team of more than 7,000 people who are dedicated to achieving the company's strategic objectives and are proud to be members of our big "TBC family".

Our staff engagement score stands as high as 91%[1] and we continuously strive to create the best working environment for our people.

Powerful multichannel capabilities with a strong focus on digital

We operate a wide distribution channel platform, which allows our customers to choose their preferred way of interacting with us.

As the usage of our digital channels is growing rapidly, especially mobile banking, we continue to invest in smart, remote solutions offering our customers such innovative services as chatbot, mobile wallet and a voice biometric recognition system.

At the same time, we continue to expand our network of self-service terminals, which offer both cash and cashless payment functionality. By the end of 2017, the number of these terminals reached 2,790.

Experienced management team and high-quality corporate governance

We pride ourselves on having one of the most experienced and well-balanced boards in the region with a firm commitment to the highest standards of corporate governance.

The Board consists of nine members, with two founding shareholders being among the most successful businesspeople in the county, five independent non-executives with vast experience and established reputations in the world's financial centres, and two highly skilled and experienced executives.

Our management team is comprised of eight members with a unique mix of international experience and strong local expertise. The CEO and first deputy CEO have been with the bank for almost 25 years.

1 91% of all employees feel involved in and committed to TBC Bank

OUR MODEL IS DESIGNED TO CREATE VALUE FOR ALL OF OUR STAKEHOLDERS

We offer a full range of banking services to retail and business customers, structuring our business into three segments:

Our key strengths

- Leading position in the market with a track record of growth and profitability
- Straightforward business model focused on financial service activities
- Strong brand
- Powerful multichannel capabilities with a strong focus on digital
- Superior customer experience
- Leading partner for businesses in Georgia
- Skillful and engaged team
- Experienced management team and high-quality corporate governance

Read more on page 20-21

What we do

- Retail, which serves around 75% of Georgia's adult population
  - Mass retail
  - Affluent customers ("TBC Status")
  - High net worth individuals
- Corporate and investment banking, which serves all major sectors of the economy
  - Large corporates
  - Mid-sized corporates
- Micro, small and medium enterprise (MSME), which serves 63%[1] of newly registered businesses in Georgia
  - Micro and small businesses
  - Medium-sized businesses
  - Start-ups

Read more on page 30-53

1 Data is for FY 2017, source: www.napr.gov.ge, the National Agency of Public Registry

How we generate profit

- Interest income mainly from lending activities
- Fee and commission income primary related to card operations, settlement transactions, trade finance and insurance
- Additional source of income from brokerage, investment banking and asset management
- Prudent risk management resulting in low cost of risk
- Cost savings from streamlining internal processes and increasing automation

How we share value

- Sustainable returns for our shareholders
- Well-suited solutions and superior service to enable our customers to succeed
- Challenging and rewarding careers for our people
- Supporting young generation, sports and culture

Read about our KPIs on pages 26-27, and our strategy on pages 24-25

STRATEGY

TBC Bank's main source of income is interest income and fee and commission income generated by the core banking business and other related financial activities. In the long term, we aim to continue offsetting the decreasing trend in net interest margins through increasing fee and commission income and operational efficiency. We see significant opportunities in the insurance business through our recently acquired subsidiary, TBC Insurance, with the ambition to become a market leader in the medium term. Our payment business, including its card business, also offers tremendous growth potential and we are actively utilising this by developing new products.

With Georgia's increasing trade flows, we see rising demand for trade finance products, which gives us a great opportunity to leverage our strong trade finance capabilities. Our brokerage, investment banking and asset management businesses will become an increasingly important source of income in the future, especially with upcoming pension reforms and the development of capital markets in Georgia. At the same time, we are focused on streamlining our internal processes and increasing automation levels within the Group in order to improve efficiency and flexibility, as well as to lower operating costs.

Our strategic priorities

Deepen relationship with customers and deliver sustainable growth
As the market leader and holding 38.2%[1] of total loans and 39.8%[1] of total deposits, we aim to continue to grow in line with the market and to maintain our leadership position. At the same time, we seek to engage with our clients more by offering them new products and services, and creating various ecosystems.

Progress in 2017
- Product per customer ratio in retail segment increased to 3.9 from 3.7
- Non-interest income grew by 34.8% year-on-year

Further improve our customer experience
We take customer experience very seriously and are committed to exceeding our clients' expectations rather than just meeting their needs. Our front office staff are more than just sales people; they listen carefully to clients and try to find the most suitable solutions for them, acting as consultants.

Progress in 2017
- Offloading ratio increased by 4.2pp to 88.3%
- Mobile banking penetration ratio increased by 7.2pp to 31.4%

Further enhance digital capabilities of our multichannel platform
As more and more customers are moving to digital channels, we strive to respond to the changing preferences of our clients by continually developing and enhancing our digital value propositions. We are continuously working on adding new features and capabilities to our award-winning internet and mobile banking applications, as well as by introducing additional innovative solutions.

Progress in 2017
- Net promoter score[2] (NPS)in mass retail – the gap with our peer bank improved by 2.8 pp
- Customer satisfaction score[3] in mass retail – the gap with our peer bank improved by 0.9 pp

Increase operating efficiency and automation
We continue to simplify and streamline our business process in the front and back offices by eliminating unnecessary bureaucratic procedures. We also continue to upgrade our banking systems and capabilities to keep in line with the newest technological developments.

Progress in 2017
- Underlying cost to income ratio decreased by 2.4pp to 40.5%
- Cost per asset ratio decreased by 1.0pp to 3.1%

1 Based on data published by the National Bank of Georgia as of 31 December 2017
2 Based on survey conducted by independent research company ACT
3 Based on surveys conducted by independent research companies ACT and IPM

Last year we observed an accelerated pressure on net interest margin (NIM) due to competition in loans and regulatory changes. As these factors will remain in the future, we have added a new strategic priority: to proactively manage our NIM.

Our goal is to ensure that our NIM remains stable in the short to medium term.

We will be working on various initiatives, both internally and with one of the world's leading consulting firms. This will include introducing appropriate customer segmentation and pricing methodologies, conducting a proper product and segment profitability analysis, and targeting the right portfolio mix.

As discussed above, we aim to offset the decrease in NIM by increasing other operating income through our initiatives, including increasing fees from the insurance business, card operations, trade finance, and brokerage and asset management products and services.

Medium-term targets

Medium-term financial targets

- Loan book growth rate at c.15% per year
- Return on equity target of above 20%
- Cost to income ratio below 40%
- Dividend payout ratio 25-35% of consolidated net profit

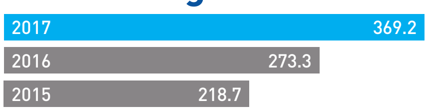
KEY PERFORMANCE INDICATORS

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 2017, we have recorded strong underlying and reported net profit, which was up by 35.1% and 20.7% year-on-year respectively. Our underlying return on equity stood at 21.4% in line with our medium-term target of above 20%. Underlying NIM decreased by 1.1pp due to increased competition and more stringent liquidity requirements, but still remained solid. The decrease in NIM was offset by the increased non-interest income, which grew by 34.8% year-on-year, improved cost efficiency, which resulted in underlying cost to income ratio of 40.5%, as well as prudent cost of risk management, leading to 1.2% cost of risk. Over the same period, our loan book grew by 16.2%, while the asset quality remained solid, with our non-performing loans ratio standing at 3.3%. We also achieved strong performance in digitalisation: our offloading ratio increased by 4.2pp and our mobile banking penetration ratio increased by 7.2pp. Furthermore, our customer and employee satisfaction scores remain exceptionally high.

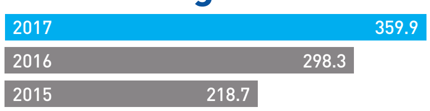
Underlying net profit (GEL million)

35.1% growth



Reported net profit (GEL million)

20.7% growth



Underlying return on average equity (ROE, %)

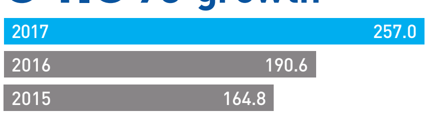
0.8pp growth

Underlying net interest margin (NIM,%)

1.1pp reduction

Reported non-interest income (GEL million)

34.8% growth

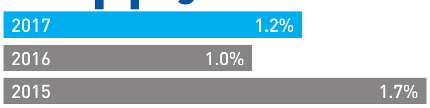


Underlying cost to income ratio

2.4pp reduction

Cost of risk (%)

0.2pp growth



Loan book market share[1] (%)

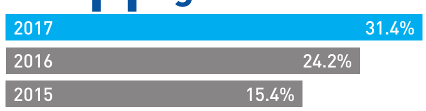
0.7pp reduction

Retail transactions offloading ratio

4.2pp growth

Mobile banking penetration ratio (%)

7.2pp growth



Employee satisfaction[2]

ENPS

11pp growth

Employee satisfaction[2]

Engagement index

3pp growth

Customer experience[3]

NPS in mass retail segment, gap with peer bank

2.8pp growth

Customer experience[3]

CSAT in mass retail segment, gap with the peer bank

0.9pp growth

1 Based on data published by the National Bank of Georgia as of 31 December 2017; 2016 market share includes Bank Republic
2 Employee Engagement Index and Employee Net Promoters Score were measured by an independent consultant
3 Based on survey conducted by independent research companies: ACT and IPM; 2015 figures are not directly comparable with 2016 and 2017 data, as they are calculated per different methodology

25 YEARS OF BUSINESS SUPPORT

NUMBER OF CLIENTS

2017

c. 2.2 m

0

1992

RETAIL BANKING

Overview

Retail banking is our largest segment. We serve more than 2 million customers, which is around 75% of the adult Georgian population.

Our retail banking is differentiated by our outstanding customer experience, world-class digital channels, strong brand, advanced analytical capabilities, as well as innovative products. We are pioneers in Georgia following the launch of the first Georgian speaking chatbot available through facebook messenger and a voice biometric recognition system in our call center.

Our retail segment is comprised of three sub-segments: high-net-worth individuals (HNWI), affluent customers (TBC Status) and mass retail.

	Mass retail	TBC Status	HNWIs
Number of clients	2.0 m	30,052	2,354
Loan book share	61.1%	36.9%	2.0%
Deposit share	38.3%	28.8%	32.9%
Cross-selling ratio	3.8	9.0	6.3

2017 highlights

40.2%[1]
Retail loan market share

41.3%[1]
Retail deposit market share

49.5%
Retail share in total loan book

56.0%
Retail share in total deposits

c. 2 million customers
Around 75% of adult population in Georgia

88.3%
Offloading ratio in mass retail

1 Based on data published by the National Bank of Georgia as of 31 December 2017; in this context retail refers to individual customers

See our Case Studies starting from page 34

Strategy

- **Further enhance our customer experience**
- **Continue to innovate and offer the most up-to-date digital solutions on the market**
- **Improve customer engagement by increasing the products per customer ratio in mass retail**
- **Increase the number of customers in the affluent segment**
- **Increase assets under management in the high-net-worth individuals segment**

Retail sub-segments

TBC Bank serves mass retail customers through a well-developed multichannel network with a special focus on digital channels. Most banking transactions can be carried out online, via self-service terminals or ATMs, and clients need to come to branches only if they want to take out a mortgage or conduct non-standard transactions.

Our TBC Status brand serves the affluent segment, including individual clients with minimum monthly income of GEL 3,000 or a loan or deposit amount of at least GEL 30,000. TBC Status differentiates itself with best-in-class personal bankers, dedicated multichannel and tailored products and value-added services.

Our personal bankers are highly qualified professionals who are committed to understanding the clients' financial needs and offering them well-suited solutions. They strive to build lasting relationships with customers, becoming trusted partners who can always be relied on and are easily accessible. As our customers' long-term well-being is of utmost importance to us, we carefully analyse their personal circumstances and goals before coming up with solutions.

While we understand the importance of personal relationships, we also realise that our affluent customers are busy and have less time for banking, so we have modelled our TBC Status banking concept around this idea. We have created dedicated multichannel services for our affluent customers with a special focus on digital channels. We serve our TBC Status clients through a separate call centre with extended capabilities, as well as internet and mobile banking offerings with enhanced functionality, allowing most transactions to be conducted remotely. In cases where our affluent customers still need to come to a branch, they are seen in specially designed service areas that offer additional comfort. We have around 70 TBC Status service areas in 27 branches. In addition, our affluent customers are entitled to a priority pass in all branches that allows them to skip any lines and be served first.

Other benefits of TBC Status include:

- preferential rates on various TBC Bank products and services, including higher interest rates on deposits and lower commissions on money transfers;
- special offers, discounts or cash back from certain retailers, hotels, restaurants and other partners; and
- exclusive events for TBC Status customers and special discounts for main concerts, such as our annual Jazz Festival.

In addition, we offer a wide range of lifestyle products through our concierge service, including:

- holiday planning;
- restaurant reservations;
- flower delivery;
- cleaning service; and
- auto services.

The HNWI segment is comprised of resident and non-resident clients with deposit amounts equal to or above US$ 100,000. Our representative office in Israel, TBC Invest, allows us to attract non-resident clients more effectively from all over the world. We serve our HNWI clients in our VIP service area, which offers an impeccable combination of luxury, comfort and privacy. Our personal bankers are much more than just service managers, they are consultants and wealth planners dedicated to maximising customers' prosperity by offering them the best investment opportunities available on the market.

Key strengths

Multichannel distribution platform

Branches

We have one of the most productive, modern and visually appealing branch networks in Georgia with 77 branches in Tbilisi and 77 regional offices. Following the merger with Bank Republic, we have redesigned and rebranded its former branches.

ATMs

We have the largest ATM network in Georgia with about 1,150 ATMs, including partner banks.

Self-service terminals

As Georgia is still largely a cash-based society, our self-service terminals with cash payment functionality remain a very important channel for our customers. It represents a strong substitution for the bank branches, as it offers the majority of branch functionality. We have 2,790 self-service terminals around Georgia.

Call centre

Our best-in-class call centre operates 24/7 and is a particularly strong channel for sales and customer inquiries. Around 21.6% of all products sold in remote channels are conducted in the call centre. The call centre is integrated with our Siebel CRM system, which allows us to deliver personalised services to our customers, as well as achieve faster lead conversion.

Internet and mobile banking

We pride ourselves on having the best-in-class internet and mobile banking applications with customer review ratings of 4.9 stars on Google Play, 4.8 stars in the Apple App Store and the highest number of active online users in Georgia. Since its launch in 2012, we have received many digital awards at the national and regional levels from Global Finance, as well as three global awards: the world's "Best Integrated Corporate Bank Site" in 2017, the world's "Best Integrated Internet Bank Site" in 2013, and the world's "Best Bill Payment and Presentment" in 2013.

Strong brand and superior customer experience

TBC Bank is one of the most trusted and well-known brands in Georgia and is associated not only with the best financial services, but also with an outstanding contribution to the country as a whole. For 25 years, we have been working diligently to build long-standing relationships and deliver a superior customer experience to strengthen our brand and gain the trust of prospective customers, thus encouraging them to explore our services and become clients. As customer satisfaction is a vital part of our success, we are committed to continually improving our customer experience to further enhance our leading position.

Advanced analytical capabilities

Since 2014, we have operated advanced data analytics that help us to better understand our customers' needs and anticipate their behaviour. This, in turn, enables us to increase sales efficiency and productivity, as well as improve customer loyalty. As a result, this year we have increased our customer reactivation rate[1] by 22.8% and decreased our churn rate[2] by 8.2%.

Main achievements of 2017

In 2017, our retail loan book grew by 15.0% to GEL 4,233.2 million, while retail deposits increased by 16.8% to GEL 4,378.3 million in 2017. As a result, the share of retail book in total loan portfolio stood at 49.5% and the share of retail deposits in the total deposit portfolio amounted to 56.0% as of 31 December 2017.

As the number one bank in Georgia, we are constantly working to provide our customers with innovative, added-value services and products tailored to their needs and interests. We continue to invest our time and money to strengthen our multichannel platform and to reinforce our leadership in retail banking.

One innovative project implemented during the year was the first chatbot available via Facebook Messenger. We developed and introduced the first Georgian-speaking chatbot, Ti Bot, which can not only understand typed messages, but also understand voice messages and respond accordingly. Ti Bot can perform simple transactions including P2P transfers and purchasing tickets, as well as provide helpful information about subjects as diverse as the weather forecast, currency exchange rates, various entertainment offerings, branch and ATM locations. Ti Bot has proven very popular among our clients and we have received around 6.5 million messages from 124,000 customers since launch.

We have also achieved outstanding results in terms of offloading our branches. In 2017, 88.3% of all retail transactions were conducted remotely. The main drivers were increased transactions through our mobile banking and self-service terminals. In addition, mobile banking penetration jumped from 24.2% to 31.4% YoY. At the same time, 44.5%[3] of total sales were conducted digitally or through the call centre.

As an innovator in the card business, we constantly develop new products and offerings to support cashless transactions. In April 2017, we launched a new loyalty programme called Ertguli. The literal Georgian meaning of the word is "loyal", but it can also be deconstructed into two separate words, "one" and "heart", which is where the inspiration for our logo is drawn from. All customers who own TBC Bank plastic cards automatically participate in the programme and can accumulate points on each purchase. Furthermore, within the Ertguli loyalty programme, we have developed a new credit card that gives our customers an opportunity to collect more points at partner merchants, as well as participate in special promotions and receive exclusive discounts. In addition, the card has a pre-approved instalment limit and it is no longer necessary to fill out a special form and wait for approval at a branch desk. As a result, our credit card sales increased significantly in 2017, when we issued around 160,000 new credit cards, up 79.4% YoY. Our priority for 2018 is to increase card transactions by fully automating and simplifying processes. In addition, in May 2017, we developed youth and student cards with distinctive benefits tailored to these clients' interests. The cards also have a unique design, which can be changed based on owners' wishes and interests. For youth cards, parents can set maximum daily expenditure limits to foster appropriate spending habits in their children.

Furthermore, in December, we launched a mobile wallet application that allows customers to pay directly using the near-field communication (NFC) technology built into their smartphones. Another 2017 innovation was the addition of a new feature to our ATMs allowing our customers to withdraw money by means of contactless cards, which reduces the time per transaction from around 40 seconds to 25 seconds.

Another breakthrough this year was the introduction of a voice biometrics recognition system. In partnership with Verint Systems, a global leader in actionable intelligence solutions, we developed and implemented a voice biometrics recognition system in our call centre that helps us to identify a person based on their voice. The main benefits are that customers can be verified quickly, enabling us to deal with a greater number of calls and reduce fraud through identity theft. We are the first bank in the region[4] to have implemented such a system.

To serve our clients better, we constantly refine our IT infrastructure and analytical capabilities. In 2017, we tested big data solutions and data architecture, successfully developed a proof of concept and are currently working on implementing the big data cluster, which will allow us to generate new revenue streams, deliver better customer service and improve operational efficiency. In addition, we developed spending analysis that enables us to accommodate customer needs and offer them products and services tailored to their interests. As a result, we have achieved strong results in cross-selling and increased our products per customer ratio by to 3.9 in December 2017 from 3.7 in 2016.

1 Customers who were passive at the beginning of the period and became active at the end of the period / total number of active customers at the beginning of the period
2 Customers who were active at the beginning of the period and became passive at the end of the period / total number of active customers at the beginning of the period
3 For products that are being sold in remote channels
4 Region in this context comprises Armenia, Azerbaijan and Georgia

RETAIL: CASE STUDY

TINATIN RUKHADZE

LONG-STANDING PARTNERSHIP WITH TBC STATUS

Tinatin Rukhadze is a successful Georgian businesswoman. In 2002, she founded ACT, a leading research and consulting company with offices in Georgia, Azerbaijan and Kazakhstan. In addition, in 2015, she established the first coaching company in Georgia, GROWIN, which provides a wide range of professional training courses and coaching sessions. To support women and encourage their active participation in business, she co-founded the "Women for Tomorrow" business federation.

Fifteen years ago, Tinatin became a TBC Bank customer and began an enduring partnership with the Bank. Since 2010, she has been a TBC Status client and benefited from the bespoke services that the Bank offers. For Tinatin, TBC Bank has been a consistently reliable partner that facilitates her financial needs and offers a superior customer experience. Her personal banker anticipates her needs and always accommodates her requests, offering tailor-made solutions. Tinatin highly values the flexibility of our digital channels and performs most of her transactions remotely and, whenever necessary, she can also easily contact her personal banker, who is always ready to assist, via Viber, email or phone. In addition, Tinatin makes good use of spending analytics, which is available via the internet and mobile banking, to monitor monthly expenses and plan future finances.

"TBC Bank is the perfect partner for businesspeople. I often have to travel, and can always rely on TBC Bank's innovative digital channels to perform the transactions that I need. In addition, I acknowledge TBC Bank's strong corporate responsibility towards the community. During the years I have been a customer, I have witnessed many social projects that have been financed by the bank and I would like to especially highlight the innovative statusdonates.ge platform, which was launched in 2017 and allows people to choose the project that they want to support."

Tinatin Rukhadze
Successful Georgian businesswoman

"TBC Bank is an undisputed leader in the digital segment. I can't remember when I last visited a branch, since I can conduct all my banking transactions online. I am very excited about the new digital product, TBC Wallet, which was just launched and I started using from the first day. It allows me to pay for items using a mobile device instead of a credit or debit card, which is much faster and more convenient."

Giga Paitchadze
Head of e-governance development at the Administration of the Government of Georgia

GIGA PAITCHADZE

A STRONG SUPPORTER OF OUR DIGITAL BANKING SOLUTIONS

Giga Paitchadze has been with TBC Bank for more than 15 years. He is head of e-governance development at the Administration of the Government of Georgia, as well as a board member at JumpStart Georgia, a lecturer at Georgian Institute of Public Affairs, and a mentor for a project at International Black Sea University.

Due to his very busy schedule, he has no time to visit branches and therefore actively uses our digital channels. Mr Paitchadze is an active user of our internet and mobile banking services and performs most transactions online, including opening deposit accounts, ordering cards, paying utilities, transferring funds and exchanging currency. He considers our call-centre services to be among the best in Georgia, especially after implementing the voice biometric recognition system, which allows for much faster customer authentication and reduces the possibility of fraud.

Mr Paitchadze is one of the most avid members of our loyal customers' group on Facebook, which helps us to test our newly introduced digital products and provides feedback and valuable customer insights. As superior customer experience is such a crucial part of our business model, we highly value our clients' opinions and consider their suggestions to further develop our digital products and services.

CORPORATE AND INVESTMENT BANKING (CIB)

Overview

TBC Bank is a leading corporate bank in Georgia with a strong presence in all major economic sectors. In recent years, we have been transforming into a "one-stop-shop" bank that offers a full range of core and supplementary products, including lending products, trade finance and factoring, treasury solutions, cash management and digital banking services, as well as corporate finance advisory, debt and equity capital markets, brokerage and research services through our wholly-owned subsidiary, TBC Capital.

We differentiate ourselves by creating a client-centric, advisory-focused business model whereby our highly skilled bankers find a customised solution for each customer, optimising their financial and capital structure. We have dedicated coverage teams for each major sector of the economy, comprised of professionals with an average experience of 10 years and strong sector expertise. Our main priority is to build long-term relationships with our clients and to become the preferred partner in all their business undertakings.

2017 highlights

36.0%[1]
Corporate loan market share

37.9%[1]
Corporate deposit market share

28.9%
Corporate share in total loan book

30.8%
Corporate share in total deposits

c. 2,300 customers

1 Based on data published by the National Bank of Georgia as of 31 December 2017; in this context corporate refers to legal entities

See our Case Studies starting from page 40

Strategy

Further accelerate the development of the capital markets and investment banking business in Georgia and increase our footprint in this area in the region

Further strengthen our coverage of Georgian regions and mid-corporate segment

Increase penetration of corporate clients through the TBC Bank's services and products

Main achievements in 2017

We had a strong performance in 2017, increasing our loan book by 20.0% YoY to GEL 2,475.4 million, while our trade finance portfolio grew by 38.6% YoY to GEL 1,589 million. At the same time, our deposits expanded by 28.6% YoY to GEL 2,410.9 million. Consequently, our market shares reached 36.0%[1] and 37.9%[1] in loans and deposits to legal entities, respectively.

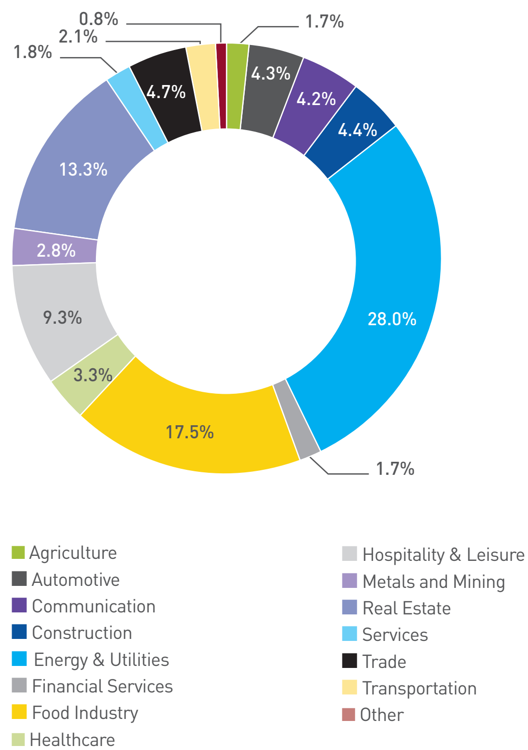
We supported our robust growth by becoming the core bank for leading industry players such as Coca-Cola, McDonald's, Nikora[2], Silknet[3] and Nova[4]. Our performance was further strengthened by the contribution from the Bank Republic integration, including the retention of key customers and employees. As a result, we gained a high-quality pool of international customers, together with a well-diversified, mid-corporate segment and advanced trade finance capabilities.

As the demand for capital markets products and corporate finance advisory services is increasing among large corporates in Georgia, the need for sophisticated investment banking products and services is becoming increasingly prominent. At the same time, evolving legislation and regulation further supports the development of capital markets in Georgia, which should, in turn, attract more international investors. We aim to harness this opportunity by developing a strong suite of investment banking products and services to help our clients achieve their corporate goals and growth objectives. In 2017, we further strengthened our investment banking subsidiary by appointing a new managing director Irakli Elashvili, who has more than 15 years of experience in Georgia and in global universal and investment banks. We broadened the deal team and revamped TBC Capital's strategy to position it to benefit from increased capital markets activity in Georgia and the region. During the year, we completed several notable transactions: TBC Capital was the sole arranger of Silknet[3], Nikora[2] and Imereti Greenery[5] bonds via public and private placements. TBC Capital also advised Tegeta Motors[6] on obtaining a global credit rating.

2 Nikora is a leading food producer company in Georgia
3 Silknet is a leading telecommunication company in Georgia
4 Nova is a leading manufacturer and importer of building materials in Georgia
5 Imereti Greenery is an agricultural company operating a modern greenhouse facility in the Imereti region of Georgia
6 Tegeta is a leader in an automotive industry in Georgia

Contribution to the economy

TBC Bank plays an important role in the growth of Georgia's economy by supporting leading players in all major economic sectors to access financing, diversifying their source of funding and gaining expert advice.



CIB: CASE STUDY

LOPOTA LAKE RESORT AND SPA

SUPPORTING GEORGIAN TOURISM

Lopota Lake Resort and Spa is a luxury resort located on a private lakeside surrounded by the Caucasus Mountains in the heart of the Kakheti region. The breathtaking views, cosy atmosphere and comfortable infrastructure makes it an ideal place for relaxation and peaceful rest. The hotel features 103 beautifully decorated rooms, three restaurants, a night club, outdoor and indoor swimming pools, and a deluxe spa. It also offers a wide range of activities, including horse riding, quad-bike tours, mini-golf and fishing.

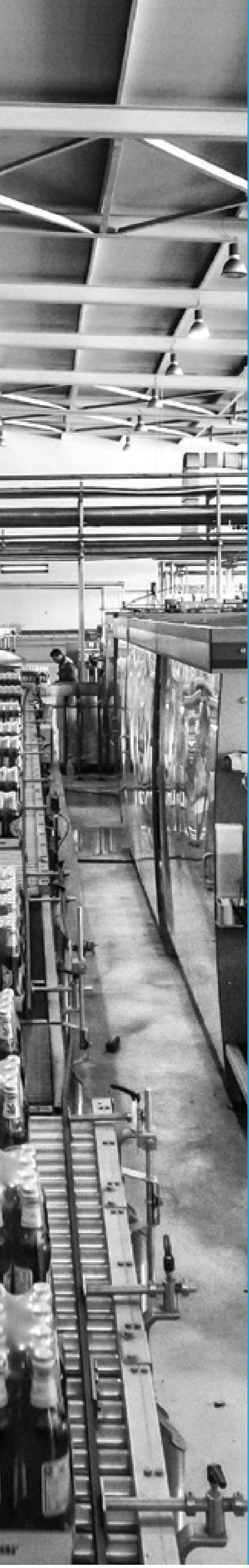
The hotel started its operations in 2008 with just seven rooms and TBC Bank actively assisted the company from a very early stage. Since then, the resort has been growing rapidly with our support, with annual revenue expanding from GEL 280,000 in 2008 to GEL 12 million in 2016, recording a compound annual growth rate of 60% over the eight-year period. Alongside the provision of direct financing to the company, we have also advised and assisted the hotel in raising equity for its future development. In 2017, the company successfully closed a transaction with the Georgian State-owned Equity Partnership Fund, obtaining US$ 5.4 million. These funds will be used to further expand the resort, allowing it to almost double the number of rooms by the end of 2018. This should result in a sharp increase in the number of guests from the current level of around 47,000 local and international visitors per year.

"TBC Bank has been supporting us from the very beginning and played an important role in helping us to realise our ambition of building a magnificent resort on a wild plot of land, which helps to promote and support Georgian tourism and hospitality."

George Maisuradze
CEO and founder of Lopota Lake Resort and Spa

"Today, Georgian Beer Company exports only a small portion of its products to neighbouring countries, but we see great potential to increase the share of exports in the coming years due to our products' unique qualities. Our goal is to establish our brand in the region and become ambassadors of Georgian products. We trust that TBC Bank will continue supporting us on our challenging journey."

Kakha Kotrikadze
CEO of Georgian Beer Company



CIB: CASE STUDY

GEORGIAN BEER COMPANY

LEADING PRODUCER OF BEVERAGES IN GEORGIA

Georgian Beer Company is a major domestic company that produces beer and non-alcoholic beverages. It has a modern factory near Tbilisi, in Saguramo village, that is equipped with state-of-the-art European equipment. Its products are based on unique spring water from the base of Zedazeni mountain – a vital component of its high-quality beverages. Among the company's various brands, Zedazeni is one of the most popular on the local market.

The company became TBC Bank's customer in 2012, when it was starting its operations. With our financial assistance, it has significantly expanded its business and is now one of the leading players on Georgia's beverage market. In 2016, the company decided to enter a new segment and start producing natural juice. We provided funding for this purpose and the company built a facility adjacent to the brewery for receiving and processing fruit from nearby farmers. The new business line will contribute to economic development by producing new Georgian products and creating new jobs, and will also support agriculture.

"I am impressed with the professional attitude of TBC Bank's team. They not only provide loans for us, but also advise on the most optimal financing structure, as well as offer various useful products, including payroll and treasury products. In partnership with TBC Bank, we are committed to further developing our business and delivering valuable services to our society."

Nugzar Abramishvili
CEO of MediClubGeorgia

MEDICLUBGEORGIA

PROVIDING HIGH-QUALITY HEALTHCARE TO GEORGIANS

MediClubGeorgia (MCG) is a leading provider of medical services in Georgia. Its facilities are equipped with the latest technology from the world's leading manufacturers. MCG was established in 1999 and is part of an international holding that aims to provide high-quality medical services in the South Caucasus. The company consists of two strategic business units: a multifunctional clinic and a learning resource centre.

- MCG's clinic offers its customers a comprehensive range of services, including general practitioner, paediatrics, therapy, cardiology, rehabilitation, surgery, and world-class emergency aid. The clinic is equipped with three surgical suites and features individual and common medical wards with 55 beds in total.
- The learning resource centre, a training unit, was established in 2004 as part of MCG and provides CPR/first aid and emergency care training programmes to MCG staff and outside contractors.

MCG has been accredited by Joint Commission International (JCI), an international organisation working in more than 100 countries to improve patient safety and quality of healthcare. JCI accreditation is considered the 'gold standard' in global healthcare. MCG was the first clinic to be accredited by JCI in Georgia.

In 2011, TBC Bank became a partner of MCG and supported the company's expansion by providing a syndicated loan together with the EBRD (European Bank for Reconstruction and Development) to purchase and renovate a new building and to acquire high-quality equipment for the clinic. Since then, we have been closely cooperating with the company and have provided a number of short-term loans for working capital needs, as well as other operating products.

MICRO, SMALL AND MEDIUM ENTERPRISES SEGMENT

2017 highlights

63%[1]
of newly registered legal entities choose TBC Bank

21.6%
MSME share in total loan book

13.1%
MSME share in total deposit portfolio

92.0%[2]
Offloading ratio of MSME segment

See our Case Studies starting from page 48

Overview

The micro, small and medium enterprises (MSME) segment serves TBC Bank's business clients that are not included in our corporate portfolio. We take pride in being the leading bank for MSME clients in Georgia, not only by the size of loan and deposit portfolios, but also by being the top choice for MSME companies. Overall, 63%[1] of newly registered legal entities in Georgia choose to bank with us. We achieve this position by placing our customers' needs first. TBC Bank distinguishes itself by superior customer experience, innovative offerings and extensive non-financial services.

Strategy

Continue to improve our superior customer experience

Further develop our flagship business support programme

Maintain our focus on digitalisation by further enhancing our multichannel platform

Main achievements in 2017

Our MSME loan portfolio grew by 14.2% during the last year to GEL 1,844.7 million, accounting for 21.6% of the total loan portfolio. In 2017, the deposit portfolio increased by 23.6% and to GEL 1,027.7 million, representing 13.1% of the total deposit portfolio.

TBC Bank continues to attract and increase the number of MSME customers. By the end of 2017, we served around 110,000 MSME clients. To make banking easier and more comfortable for MSMEs, we offer fully digital on-boarding, so that a prospective client can fill in the application and open a current account without visiting our branch (www.businessregistration.ge). If the client prefers to receive hard copies, all the necessary documents are delivered by our eco-friendly car. In addition, our award-winning multichannel offering enables our clients to perform most transactions remotely, driving our offloading ratio as high as 92.0%[2] by the end of 2017.

We also actively cooperate with 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 the grace period. This year, we also launched an innovative programme named "Startuperi", giving early-stage companies access to financing from a bank. The programme also involves extensive non-financial support, such as training, masterclasses, individual consultations and media coverage for young companies. In addition, participant companies also receive special offers from TBC Bank and its partners. The programme has proved to be very successful and, by the end of 2017, 13,000 companies took part in "Startuperi", and we disbursed 168 loans totalling around GEL 21 million. Please see figure 1 for more information.

The MSME segment's strong performance is shaped by our continuous efforts to transform our customer experience via innovative offerings. We are the sole bank in Georgia offering a business support programme to our clients, including training, workshops and individual consultations. In 2017, around 4,400 companies attended training in areas such as budgeting and analysis, innovations management, taxation, digital marketing and simplified IFRS. Through these training sessions, we provide an essential business toolkit to our clients, encouraging them to fine-tune their businesses and become even more successful. We strive to make our clients confident that we are more than just a bank: we are their partners.

In collaboration with Georgia's Revenue Service, we have created Business Map (www.businessmap.ge), a useful benchmarking tool for companies. We have analysed public big data and built an online business map where companies can evaluate their performance against their competitors by district, city, or nationwide. Business Map presents the following metrics: revenue, costs, number of employees and payroll.

In November 2017, we organised our second annual business awards ceremony, attracting up to 700 participants. This year, we have announced winners in seven categories. We try to find and promote successful Georgian businesses and encourage entrepreneurship in the country. The event was a huge success and attracted 5.3 million views.

1 Data is for FY 2017, source: www.napr.gov.ge, the National Agency of Public Registry

2 Excluding cash transactions

Figure 1
Within this programme, we offer three types of start-up loans:

General start-up loan	Start-up loan for hotels	Start-up loan for agro business
▸ Maximum amount GEL 100,000, ▸ Maximum term - 7 years, grace period - up to 1 year, ▸ Individual payment schedule	▸ Maximum amount GEL 3,500,000 ▸ Maximum term - 12 years ▸ Grace period - up to 2.5 years ▸ Individual payment schedule ▸ Ability to participate in government programme "Produce in Georgia" ▸ Ability to participate in EBRD programme, which allows 10 - 15% cash-back for purchase of the equipment	▸ Maximum amount GEL 1,500,000 ▸ Maximum term - 10 years ▸ Grace period - up to 5 years ▸ Individual payment schedule ▸ Ability to participate in "Preferential Agro Credit Project" which is supported by Georgian Ministry of Agriculture
31 December 2017 ▸ Outstanding portfolio – GEL c.3,200,000 ▸ Number of loans - 76 ▸ No overdue loans	31 December 2017 ▸ Outstanding portfolio - GEL c.12,000,000 ▸ Number of loans - 38 ▸ No overdue loans	31 December 2017 ▸ Outstanding portfolio - GEL c.5,800,000 ▸ Number of loans - 54 ▸ No overdue loans

MSME: CASE STUDY

IB MTHIEBI

RAISING NEW TALENT

IB Mthiebi is one of the pioneer private secondary schools in Georgia. Since 1995, the school has distinguished itself by the high standards of its academic programme, as well as by its qualified faculty and modern infrastructure.

The school was founded with the aspiration to set a new standard and create a positive learning environment. When the school was set up, very few parents entrusted a start-up school with their children, but today it is highly ranked and has more than 1,200 students. The school's founder is actively involved in continuously developing the educational programme. In partnership with German shareholder IB, the school faculty regularly participates in exchange training to enhance their qualifications and learn about new teaching practices. As demand for the school has grown, IB Mthiebi has decided to invest in its infrastructure to increase capacity and create classrooms equipped with modern technology.

For TBC Bank, this was not just another commercial loan, it was a chance to have a direct impact on developing an education system. In 2012-16, with financing from the Bank, IB Mthiebi renovated its existing premises and built a new, 2,000 m2 campus that is fully equipped with the latest laboratories and IT infrastructure. IB Mthiebi is one of the few schools in Georgia that has implemented the highest safety and quality management standards, receiving the OHSAS 18001:20017 and ISO 9001:2015 certificates.

"We started our long-term relationship with TBC Bank in 2003. We chose TBC Bank because we are confident that the TBC team understands the importance of education in Georgia and encourages us to succeed."

Nino Chikvaidze
Founder and director of IB Mthiebi

“TBC Bank had just launched its Startuperi programme, which aims to financially support start-ups and promote entrepreneurship. So, when we came up with the business idea and needed financing, we decided to apply for Startuperi.”

One of X-Park’s founders

X-PARK

A NEW FORM OF ENTERTAINMENT

In recent years, Georgia has entered the lists of top must-see destinations from Condé Nast Traveler, Vogue and Lonely Planet. Once a hidden gem, it is now under an international spotlight. With growing numbers of tourists visiting the country every year, hospitality and leisure services have developed to offer a wide variety of entertainment options. Three experienced enthusiasts decided to set up the country's only large-scale adventure park in Dusheti region's Tvalivi village.

X-Park offers its visitors an unforgettable experience, full of excitement and adrenaline. The park covers 7,000 square metres and is equipped with outdoor adventure tracks in the air and on land. Visitors can choose from four available routes with varying difficulty levels. The park is suitable both for lovers of extreme outdoor sports and for teambuilding events.

The founders came up with the X-Park idea after successfully operating another club for white water rafting.

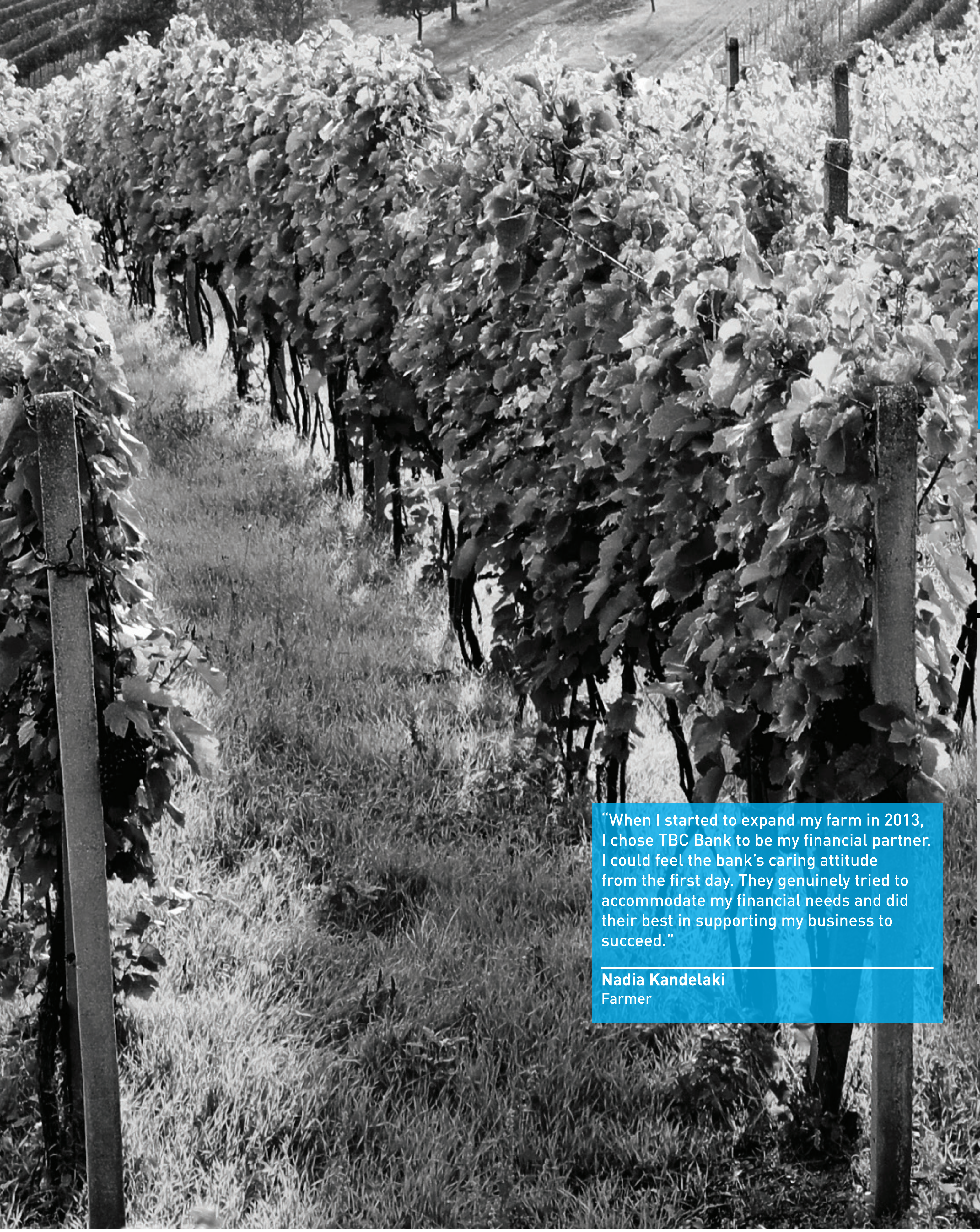
The X-Park required a significant upfront investment to purchase necessary safety and outdoor equipment. TBC Bank disbursed a US$100,000 loan in March 2017 and X-Park started operating in August 2017. Since opening, the park has become quite popular and has attracted many visitors.

NADIA KANDELAKI

SUCCESSFUL WOMAN IN AGRICULTURE

Agriculture is one of the oldest, most widespread occupations in Georgia, where a large share of the labour force is engaged in farming. However, employment in the agricultural sector is mostly dominated by male farmers, while female farmers are under-represented. Nadia Kandelaki is an example of a daring woman who decided to take up agriculture and start a farm.

In 2013, Nadia approached TBC Bank to finance her expansion plans. At the time, she had some land, orchards, vineyards, beehives and livestock. She decided to increase the number of beehives, as natural honey was in high demand and quite profitable. She also bought dairy cattle and expanded her dairy production. Nadia is very hard working, managing the farm on her own. As her first expansion project was successful, she decided to grow her business further. In 2016, TBC Bank provided Nadia with the funds she needed to set up a vineyard and build a wine cellar. This year, she fermented her first harvest in her cellar. Nadia's successful business endeavours encourage women to be more active and entrepreneurial. TBC Bank supports women in business and has a special programme aimed at financing women's start-ups.



"When I started to expand my farm in 2013, I chose TBC Bank to be my financial partner. I could feel the bank's caring attitude from the first day. They genuinely tried to accommodate my financial needs and did their best in supporting my business to succeed."

Nadia Kandelaki
Farmer

SUBSIDIARIES

TBC Insurance

TBC Insurance is a wholly owned subsidiary of TBC Bank and the main bancassurance partner of the Bank. It was acquired by the Group in October 2016 and has been growing rapidly since then. TBC Insurance's product offerings comprise motor, travel, personal accident, credit life and property, business property, liability and cargo insurance products. The company uses a broad range of channels to sell its products, including insurance agents, auto dealerships and web platforms, as well as TBC Bank's market-leading multichannel network.

In line with the Group's digitalisation strategy, TBC Insurance actively uses digital channels to market and sell its products. In 2017, TBC Insurance launched the first insurance chatbot, B Bot, on the local market, which sells different types of insurance products. B Bot is great fun to use and is quickly gaining popularity among our clients, especially the younger generation. Another popular sales channel is the wide network of TBC Bank's self-service terminals, where customers can buy travel, casualty and collision (CASCO), and motor third-party liability (MTPL) insurance in a very short time. In addition, travel insurance can be purchased through TBC Bank's internet and mobile banking services, and more products are planned to be added to this channel in 2018, including payment protection insurance (PPI), CASCO and MTPL.

Georgia's insurance market is promising with high growth potential. The penetration level, measured as gross written premium to GDP, stood at 0.62%[1] for the property and casualty (P&C) insurance market as of 31 December 2017, which is the lowest among CEE countries. The density, which is measured as gross written premium per capita, is also low compared with peer countries at US$24.4[1].

The insurance business is regulated by the Insurance State Supervision Service of Georgia, which closely monitors insurance companies, and sets the minimum and solvency capital requirements. There are 16 insurance companies operating in the Georgian P&C insurance market. The two largest players hold respective market shares[2] of 37.4% and 17.2%, followed by TBC Insurance in third place with 13.3%.

During the last five years, the P&C insurance market in Georgia has grown at a significant compound annual growth rate of 11.7%. The largest insurance product lines are motor (35.1%) and property insurance (29.8%), followed by credit life and personal accident (11.7%), liability insurance (11.4%), travel insurance (3.2%) and other (8.8%). We see particular growth potential in car insurance due to the introduction of mandatory MTPL insurance starting from March 2018. Travel insurance is another promising segment, as the number of outbound tourists has been growing significantly since the introduction of a visa-free regime with EU countries in March 2017.

TBC Insurance has grown rapidly since our acquisition and has increased its market share to 13.3%[2] as of 31 December 2017, compared with 3.5% in December 2016. It has particularly strengthened its position in the retail segment by reaching 28.9%[2] to become the second-largest player. Over the same period, the number of clients reached 276,848 compared to 2,887 one year prior. Gross insurance profit amounted to GEL 6,8 million in 2017. At same time, the company has significantly improved its efficiency and decreased the net combined ratio to 95.9% in 2017 from 110.3% one year prior. As a result, TBC Insurance recorded a net profit of GEL 935,000 in 2017.

TBC Insurance aims to further strengthen its positions on the market and become the number one retail insurance company in Georgia in the medium term. Our strategic priorities include:

- increase the usage of digital channels;
- diversify our product offerings and develop new products, including agricultural insurance, financial risks insurance and personal risks insurance;
- offer a best-in-class customer experience to achieve the highest net promoter score among industry players; and
- achieve a total market share of 25-30% and retail market share of 30-35% in the medium term.

TBC Leasing

TBC Leasing is the leading leasing company in Georgia with a market share of over 74.3%[3]. The company was founded in 2003 by TBC Bank, which currently holds a 99.6% interest. By the end of 2017, TBC Leasing's portfolio amounted to around GEL 145 million, with approximately 2,150 customers and up to 3,450 active leasing agreements.

In 2017, the company had one of the most successful years in its history. TBC Leasing launched two new products: used car financing for the retail segment (product named "Starto") and full-service operational leasing for both corporate clients and individuals. We also enhanced our value proposition by beginning to offer advisory services.

Additionally, TBC Leasing strengthened its collaboration with the Bank by beginning to use banking channels to sell its products to TBC Bank's MSME customer base. As a result, we disbursed record high leases in the amount of GEL125 million to MSME clients.

In 2017, TBC Leasing also enhanced its internal operations and processes by:

- launching the first bespoke leasing core software system, which was developed by a local IT company;
- establishing an independent call centre separate from that of the Bank; and
- enhancing operational risk management procedures.

Our mission is to contribute to Georgia's economic development by providing comprehensive leasing solutions and premium advisory services to our customers, making it easier for them to invest in capital assets.

Our medium-term strategy consists of the following main goals:

- develop digital solutions and innovative products;
- become more socially conscious by offering eco-friendly solutions (financing electric cars, solar systems, etc);
- develop premium advisory services for our customers; and
- optimise sales channels by forming strategic alliance with vendors and dealers, as well as by utilising the parent company's resources.

TBC Pay

TBC Pay was founded in 2008 by TBC Bank and is its wholly owned subsidiary. The company provides fast and easy payment options for individuals all over the country through its wide network of self-service terminals on a 24-hour basis. Customers can conduct various transactions, including paying for utilities or state services, depositing money in their accounts, repaying loans, topping up their mobile balance and many more.

Starting from 2017, in addition to cash payments, our self-service terminals were equipped with card readers and pin pads, allowing our customers to pay for their services both with cash and credit/debit cards. We also started using our terminals as a channel to originate fast, preapproved loans for the Bank's customers.

In 2017, TBC Pay updated its online payment platform (www.tbcpay.ge), which has the same functionality as the self-service terminals but offers a significantly improved user experience. The company was also successful in increasing the number of transactions by improving the availability of services and adding 200 new self-service terminals. In addition, we won an important tender process in 2017 allowing us to place our terminals in metro stations, thus capturing more attractive locations. As a result, the number and volume of transactions increased by a respective 9.5% and 43.5% YoY in 2017.

In addition to the existing business, TBC Pay started a cash management business for companies with a large volume of cash operations. We placed our terminals at retailers' sites, allowing them to deposit money directly to their bank accounts, which will be reflected instantly. Customer interest in this service is tremendous and we plan to further expand this business in 2018.

The company's strategy in 2018 is to further develop and improve its online platform (www.tbcpay.ge) by adding new functions, such as wallet, mobile apps and loyalty programmes, which will further our ambition to become the number one payment company in Georgia in the medium term.

1 Source: Geostat and Insurance.gov.ge
2 Source: Insurance.gov.ge
3 Based on internal estimates

TBC Capital

TBC Capital is TBC Bank's wholly owned investment banking subsidiary. In 2017, TBC Capital became an integral part of TBC Bank's corporate and investment banking franchise. Its main lines of business include corporate advisory, debt and equity capital markets, brokerage and research. TBC Capital is also a shareholder in the Georgian Stock Exchange and plays an active role in the development of its infrastructure.

More information about TBC Capital can be found in the corporate and investment banking section on page 39.

International operations

Most of TBC Bank's operations are conducted in Georgia (99.7% 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. TBC Bank has owned 75% of TBC Kredit since 2008.

TBC Kredit's total loan portfolio stood at US$16.3 million at 31 December 2017. SME lending accounted for 49.3%, while consumer and mortgage loans accounted for a respective 36.7% and 14.0%.

Other local subsidiaries

The Group also includes the following subsidiaries:

- **United Financial Corporation** is the largest card-processing centre in Georgia, serving nine banks, five financial institutions and one loyalty company. It provides a full range of services according to 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.

	Breakdown of total assets	Breakdown of net income
The Bank	97.6%	94.4%
International Operations	0.3%	0.3%
Other local operations	2.1%	5.3%

Principal risks and uncertainties

Risk management is a critical pillar of the Group's strategy. To perform it effectively, it is essential to identify emerging risks and uncertainties. The principal risks that could adversely impact on the Group's performance, financial condition and prospects are presented below. Performance may be affected by additional risks and uncertainties other than those listed below and some as-yet-unknown risks that emerge in the future. More details regarding risk management practices can be found on pages 60-69.

The Board has undertaken a robust assessment of the principal risks facing the Group in order to determine whether to adopt the going concern basis of accounting and during its assessment of the long-term viability of the Group's operations as set out in the Going Concern and Viability Statements on pages 111 to 112.

1. 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 for further GEL depreciation is one of the most significant risks that could negatively impact on portfolio quality due to the large presence of foreign currencies on the Group's balance sheet. Unhedged borrowers could suffer from 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 the GEL, particularly the USD. As of 31 December 2017, the National Bank of Georgia reported that 58.1%[1] of total banking sector loans were denominated in foreign currencies. As of the same date, 59.7% 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 USD via remittances, or exports in case of business borrowers. Nevertheless, customers may not be protected against significant fluctuations in the GEL's exchange rate against the currency of the loan.

In 2017, the USD/GEL exchange rate appreciated by 2.1% YoY, supported by the relative stability of major trading partners' currencies and the solid improvement in external inflows. The USD/GEL exchange rate remained volatile throughout the year due to the free-floating exchange rate regime and Georgia's small forex market. However, the amplitude of volatility remained within the acceptable range.

The National Bank of Georgia operates effectively under its inflation-targeting framework. However, the GEL remains in free float and is exposed to many internal and external factors that in some circumstances could result in devaluation against the USD.

1 excluding Credo Bank effect, which obtained banking licence in March 2017

Risk mitigation

Specific 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 exchange rate depreciation is monitored on a frequent basis to be able to promptly implement an action plan, when and as needed. The ability to withstand certain exchange rate depreciation is incorporated into the credit underwriting standards, which also include applying significant currency devaluation buffers for uncharged 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 emerging exchange rate depreciation risks.

In 2017, the government enacted a law aimed at reducing the economy's dependence on foreign currency by requiring loans for amounts of less than GEL 100,000 to be disbursed in local currency.

This and other initiatives have helped to reduce the share of loans denominated in foreign currencies in TBC Bank's retail portfolio from 58.1% at the end of 2016 to 49.3% at the end of 2017.

2. 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 rising unemployment rates, increasing retail sector default rates, falling property values, worsening loan collateralisation, or falling debt service capabilities of companies suffering from decreasing sales.

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

Risk description

As the Group operates primarily in, and sources nearly all its revenue from Georgia, its business, financial condition and operating results are, and will continue to be, highly dependent on the general economic conditions in the country.

During 2011-17, the Georgian economy recorded average real GDP growth of 4.6% per annum. In 2017, economic growth recovered significantly to 5.0%, compared with 2.8% in 2016. The sharp improvement was primarily driven by a recovery in exports, tourism and remittance inflows.

Georgia's economy is open, liberal, well diversified and reasonably reformed. While it has shown resilience during international or regional crises, it is still exposed to many internal and external developments. These could result in lower growth or, in some severe circumstances, a contraction of the economy.

Risk mitigation
To decrease its vulnerability to economic cycles and adverse developments, the Group identifies and limits its exposure to cyclical industries 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 loan portfolio. 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 the business and the portfolio.

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.

3. 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. The regulations and various terms of its funding and other arrangements require compliance with certain capital adequacy and other ratios. Local regulatory requirements are more conservative than the current Basel standards. 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
The National Bank of Georgia has introduced a new capital adequacy framework that came into force in December 2017. The updated regulation divides the current capital requirement across Pillar 1 and Pillar 2 buffers that are introduced gradually over a four-year period. The Bank's capitalisation as of December 2017 stood at 13.4% and 17.5% against the regulatory minimum requirement of 10.3% and 12.9% for Tier 1 and Total capital, respectively. The ratios are well above the respective regulatory minimums.

From January 2018, the National Bank of Georgia has fully phased out the Basel I and Basel II/III capital adequacy standards and replaced them with the updated capital framework, which is more compliant with the Basel III guidelines. More information about the new regulation can be found in the Risks, Ethics and Compliance Committee (RECC) report on pages 123-125.

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 steadily 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. In addition, under the new capital adequacy framework, the Pillar 2 minimum capital requirements can be reduced by the amount equal to the additional capital needed, as a result of the increased risk-weighted assets due to the technical effect of GEL devaluation.

4. Principal risk
The Group is exposed to regulatory risk.

The Group's activities are highly regulated and thus face regulatory risk. The local regulator, the National Bank of Georgia, 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 National Bank of Georgia. In addition to mandatory capital adequacy ratios, the regulator sets lending limits and other economic ratios, including, inter alia, lending, liquidity and investment ratios. Under the Georgian banking regulations, the Bank is required, among other things, to comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. The Bank is also regulated by respective tax code or other relevant laws in Georgia.

Following the Company's listing on the London Stock Exchange's premium segment, the Group became subject to increased regulations from the UK Financial Conduct Authority.

In addition to its banking operations, the Group also offers other regulated financial services products, including leasing, insurance and brokerage services.

The Group's current operations in Azerbaijan (through TBC Kredit) are required to comply with the local regulations.

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 242 in the Group's Audited Financial Statements.

Risk mitigation
The Group has established systems and processes to ensure full regulatory compliance.

The dedicated compliance department reports directly to the Chief Executive Officer and bears the primary responsibility for regulatory compliance. However, compliance is embedded in all levels of the Bank's operations.

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

In terms of banking regulations and Georgia's taxation system, the Group is closely engaged with the regulator to ensure that new procedures and requirements are discussed in detail before their implementation.

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

5. 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 a single industry (ie energy and utility) standing at 8.4%. Considering the macroeconomic outlook, this figure is reasonable and demonstrates adequate credit portfolio diversification.

The exposure to the 20 largest borrowers stands at 12.4%, which is in line with the Bank'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 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 or 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 weakened borrowers. When it is deemed necessary, clients are transferred to such teams for more efficient handling and, ultimately, to limit resulting credit risk losses.

The National Bank of Georgia'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.

6. Principal risk

Liquidity risk is inherent in the Group's operations.

While the Board believes that the Group currently has sufficient financial resources available to meet its obligations as they fall due, liquidity risk is inherent in banking operations and can be heightened by numerous factors. These include an overreliance on, or an inability to access, a particular source of funding, as well as changes in credit ratings or market-wide phenomena, such as the global financial crisis that commenced in 2007.

Access to credit for companies in emerging markets is significantly influenced by the level of investor confidence and, as such, any factors affecting investor confidence (eg a downgrade in credit ratings, central bank or state interventions, or debt restructurings in a relevant industry) could influence the price or availability of funding for companies operating in any of these markets.

Risk description

Throughout 2017, the Group was in compliance with the risk appetite limits, as well as the minimum liquidity requirements set by the National Bank of Georgia, 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 2017, the net loan to deposits plus international financial institution funding ratio stood at 92.5%, the liquidity coverage ratio at 112.7%, and the net stable funding ratio at 124.4%. All are comfortably above the National Bank of Georgia's minimum requirements or guidance for such ratios.

Risk mitigation

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

7. 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. High competition on the local banking sector 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, the Group's results of operations are affected by fluctuations in its NIM.

In 2017, the NIM decreased by 1.3 pp YoY to 6.5%, which the Bank had expected and included in the forecast that provides the basis for the Group's guidance.

The decrease in the net interest margin is mainly caused by the faster repricing of the assets than liabilities, through the competition for newly disbursed loans and through prepayment of loans at times when market interest rates are falling.

Finally, the Group limits its direct exposure to the LIBOR and local refinancing rates or, where this is not feasible, prices them appropriately between assets and liabilities. As of 31 December 2017, GEL 2,532 million in assets (19.5%) and GEL 1,308 million in liabilities (11.8%) were floating, related to the LIBOR/FED/ECB (deposit facility) rates. During the same period, GEL 1,786 million of assets (13.8%) and GEL 2,131 million of liabilities (19.2%) were floating, related to the National Bank of Georgia's refinancing rate.

Risk mitigation

The high current margin levels, increase in fee and commission income and continuous cost optimisation efforts represent a safeguard against margin declines, posing profitability concerns for the Group.

The Group has also launched an enhancement programme for margin management, including an adequate pricing framework and profitability analysis, to assist in decision making. In cases where loans are extended on fixed rather than floating terms, the interest rate risk is adequately translated into price premiums, safeguarding against changes in the interest rates.

The Group expects margins to stabilise in the medium term. The Group expects that the decreasing margins will be compensated in practice by increased fee and commission income and decreased unit cost spent per transaction.

8. Principal risk

The threat posed by cyber-attacks has increased in recent years and 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 monitor the developments on both 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.

9. 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 Bank. Most frequently, this involved events related to banking cards and cash. Internal fraud arises from actions committed by the Bank's employees and such events happen less frequently.

During the reporting period, the Group faced few instances of fraud events which had an immaterial impact on the Group's profit and loss statement (the details on the largest case in 2017 are summarised on page 68.

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 material.

Risk mitigation

The Group actively monitors, detects and prevents risks arising from fraud events. There are permanent monitoring processes in place for the timely detection of 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 Bank ensures timely identification and control of fraud-related activities.

RISK MANAGEMENT

Risk management

Overview

Risk management objectives and principles

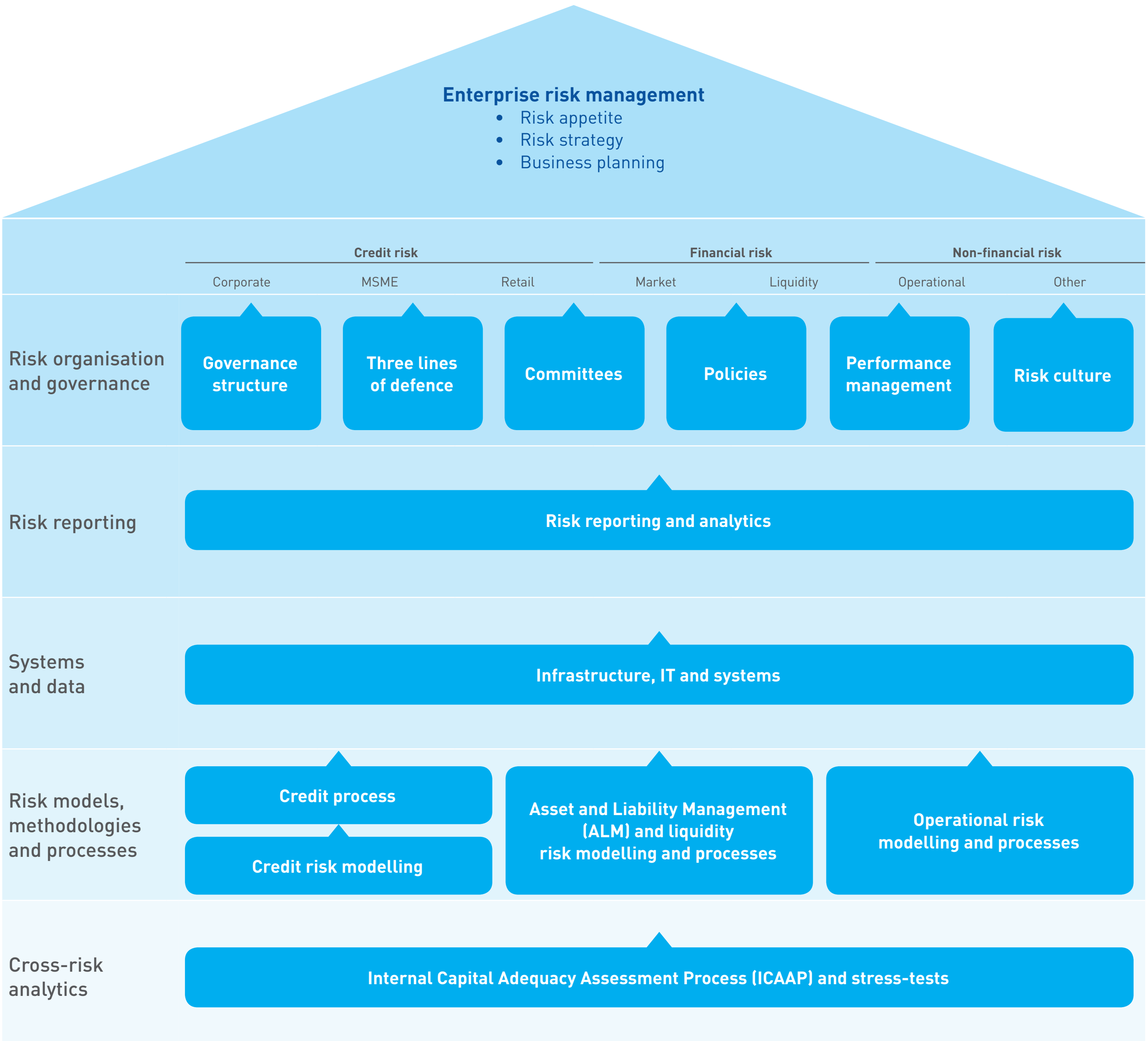
The Group operates a strong and independent, business-minded risk management system. Its main objective is to contribute to the sustainability of risk-adjusted returns through the implementation of an efficient risk management system. The Group has adopted four primary risk management principles to better 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, support generating the desired returns and achieving 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 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 authorities and effective communications between different entities facilitate clarity regarding the Group's strategic and risk objectives, adherence to the established risk appetite and sound risk management.

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

Board		Board	Risk, Ethics and Compliance Committee	Audit Committee	
Supervisory Board		Supervisory Board	Risk, Ethics and Compliance Committee	Audit Committee	
Management Board		Risk Committee	Operational Risk Committee	ALCO	
Risk management structure	Functions:	Enterprise risk	Credit risk	Financial risk	Operational risk
	Committees:	Loan approval committees		Restructuring and Collections committees	

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

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

The Board, 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 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 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 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 material risks of the Group, such as credit, financial, operational and market risks. Additionally, individual economic capital calculations are supplemented by enterprise-wide stress-tests. Based on the selected stress scenarios, the Group calculates losses and projects capital adequacy ratios. This exercise helps the Group to define the capital buffers that are to be held to meet the regulatory requirements under predefined stress scenarios.
- Stress-testing exercises are one of the crucial tools for effective risk identification, measurement and mitigation. In that regard, the Group continuously advances its stress-testing capabilities and tools. Stress-testing at both the transaction and portfolio levels forms part of the regular risk management activities.
- Consistency of risk management practices within the Group is also an important task of the ERM. A risk management function dedicated to promoting consistency ensures that the risks are identified, measured and governed in an optimal manner within the Group, and reported and understood on a consolidated basis. The Group-wide approach to risk management was underpinned and enhanced further due to the recent acquisition of two significant financial institutions.
- Generating 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 activity 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 clear segregation of duties among parties involved in the credit analysis and approval process. The credit assessment process is distinct across segments, being 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.

For exposures above GEL 5 million, a risk report assessing the credit application and recommending a decision is issued for a loan approval committee to review. 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, loans to the 20 largest borrowers or for amounts exceeding 5% of the Bank's regulatory capital would require review and approval of 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 as to the risk level of the customer.

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.

Currency-induced credit risk

The Group faces currency-induced credit risk, given that a large part of its exposure is denominated in foreign currency, in line with the Georgian economy's significant reliance on currencies other than the GEL. 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 addition, in the beginning of 2017, the government introduced a legislative initiative to support reducing the banking sector's reliance on foreign currencies. As part of this initiative, all loans to individual borrowers in amounts of less than GEL 100,000 should be disbursed in GEL.

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.

Apart from 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 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 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, particularly, 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 borrower and sectors using the Herfindahl-Hirschman Index, thus ensuring that sufficient capital is held against concentration risk.

Collateral policies

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 appraisal process, a haircut system throughout the underwriting process, monitoring and revaluations.

Throughout the underwriting process, provided collateral is appraised by the Group's internal appraisal function in accordance with internal policies. In specific instances, such as lending to related parties and material transactions, external appraisers validate these appraisals. The internal appraisal group is part of the collateral management unit and is 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 re-evaluated annually through on-site visits by internal appraisers. Statistical methods are used to monitor the value of collateral of non-significant value.

Credit 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 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 Board's 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. The debt managed through FICO software is applied for early collection processes. Collection strategies are defined based on the size and type of exposure. 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.

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

In assessing the credit risk and calculating provisions according to IAS 39, the Group takes into account three components: (i) the probability of default by the counterparty on its contractual obligations; (ii) current exposures to the counterparty and potential utilisation of undrawn credit liabilities, from which the Group assessed the exposure at default; and (iii) the likely loss ratio on the defaulted obligations (the loss given default). According to the Group's policy, asset and contingent liability loss reserves must be maintained at an adequate level to absorb all estimated incurred losses in the Group's credit portfolio at any given point in time.

Starting from 1 January 2018, the Group moved to the 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. Along with methodology development, an IT tool for provisioning was implemented.

During 2016-17, significant work was performed to develop the impairment methodology and models per IFRS 9 requirements and set up the respective systems and processes. The project was undertaken with the support of Deloitte. 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. Under the IFRS 9 methodology, the Bank classifies its exposures in three stages:

- Stage I – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage II – assets for which significant increase in credit risk since initial recognition is identified; and
- Stage III – credit-impaired exposures.

The implementation of IFRS 9 has resulted in a one-time impact of GEL 64 million, which will be passed directly to IFRS equity. The impact did not affect the Bank's profit and loss statement or capital adequacy.

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 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 monitored by the Management Board's Risk Committee or the Assets and Liabilities Management Committee (ALCO) within their predefined functions.

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

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

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

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

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

Additionally, the Group applies stress-tests and "what-if" scenario analyses and monitors the National Bank of Georgia's minimum liquidity ratio. In 2017, the National Bank of Georgia 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 National Bank of Georgia's LCR limits. In addition to the total LCR limit, the National Bank of Georgia has also defined limits per currency for the GEL and foreign currencies.

The LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows. It is used to help manage short-term liquidity risks. The NSFR is calculated by dividing available stable funding by required stable funding. It is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for the 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 deteriorating liquidity conditions that could arise outside the ordinary course of its business.

Funding and maturity analysis

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

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

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

Market risk

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

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

Foreign exchange risk

Due to the Georgian economy's significant reliance on foreign currencies, movements in foreign exchange rates can adversely affect the Group's financial position. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The National Bank of Georgia 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 2017, the Bank maintained an aggregate balance open currency position of 1.5%.

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

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

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.

Under the ICAAP framework, the Group 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 addition, the Group has developed stress-tests in accordance with Basel II requirements to ensure that the Bank can withstand severe but probable stress scenarios.

Counterparty risk

Through performing banking services, 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 and as well on a portfolio basis by limiting the expected loss from both treasury and trade finance exposures. As of 31 December 2017, 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 an intention to make the Group's services or supporting infrastructure unavailable to its intended users, which in turn may jeopardise sensitive information and financial transactions of the Group, its clients, counterparties or customers.

Moreover, the Group is subject to the risks that cause disruption to systems performing critical functions or business disruption arising from events wholly or partially beyond its control, for example, 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, an overarching document that outlines the general principles for effective operational risk management and defines the roles and responsibilities of various parties involved in the process. Policies and procedures enabling effective management of operational risks are an integral part of the framework.

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

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

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

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

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

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

During 2017 particular attention was given to operational risk concerns arising from an incidence of identity fraud in the fourth quarter 2017. Using an apostilled power of attorney, which was ultimately confirmed as fraudulent by the account owner, a third party was able to gain access to our client's bank account and withdraw approximately US$ 800,000 in cash. To prevent any reoccurrence of this type of fraud, extra control measures were added to the Bank's identity verification process and its corresponding policies.

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-Money Laundering and Counter-Terrorist Financing Policy;
- the Anti-Bribery, Anti-Corruption and Anti-Facilitation of Tax Evasion Policy;
- the Related-Party Transaction Policy;
- the Share Dealing Policy; 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.

As part of its ongoing operations in 2017, the National Bank of Georgia has conducted a thematic inspection of the Bank covering the past six years. Over this period, it has identified a certain number of transactions in connection with which the Bank was required to pay penalties in the aggregate amount of GEL 1.9 million. The majority of these transactions were related to few companies, which were considered not to be properly identified and the amount of a single penalty for most of these transactions did not exceed GEL 1,000.

However, the National Bank of Georgia noted the progress that the Bank has made to date, as well as the planned actions going forward, and assessed the level of anti-money laundering and counter-terrorist financing controls as acceptable. The Bank paid these penalties from the appropriate provisions that had been created for similar actions and operations in the previous years and, accordingly, there was no impact on the Bank's profit and loss statement in the 2017 results.

The new EU General Data Protection Regulation (GDPR) will come into force on 25 May 2018, which will apply mainly to our holding company, TBC Bank Group PLC. Given the fact that the Group's operations are mainly in Georgia, which is outside EU, the impact of GDPR on the Group will be limited. However, the Group is in the process of assessing the scope, given that the GDPR applies to entities outside the EU offering goods and services into the EU, and developing respective actions.

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's business holds a unique place of trust in the lives of more than 2.2 million customers throughout Georgia. Therefore, preserving market confidence through the protection of our customers' interests is of 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 the 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 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 product information provided to clients by the 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-boarding 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 the front-line departments and that the proper conduct is fully integrated into required job skills.

Viability statement

The assessment of principal risks underpins the Viability Statement in the Directors' Report for 2017, see pages 111 to 112. The assessment involved consideration of the Group's current financial position over three years of coverage ending 1 January 2021, which is relevant to the strategic considerations of the Group.

25 YEARS OF CORPORATE RESPONSIBILITY

PETRE OTSKHELI
WINGED PAINTER (1936)

CORPORATE RESPONSIBILITY AREAS OF FOCUS

ARTS PEOPLE

SPORTS CULTURE

25 YEARS OF OUR PEOPLE

NUMBER OF EMPLOYEES

2017

c.7,100

12

1992

In the 25 years that have passed since TBC Bank's inception, we have faithfully served our customers and businesses, supporting the wider Georgian community, creating a positive work environment for our colleagues, and preserving the environment. We are privileged to be the leading bank in Georgia, but this carries the added responsibility of making a sustainable positive impact for all our stakeholders. We are committed to having a collaborative approach with all our stakeholders and contributing to building a prosperous and independent country.

WE SERVE MORE THAN

2.0m

retail customers, which is around 75% of the total adult population of Georgia

OUR CUSTOMERS

Retail customers

We serve more than 2 million retail customers, which is around 75% of the total adult population of Georgia.

We do our best to provide superior customer service through our wide distribution network, with special focus on digital channels, as more and more of our clients are shifting to online solutions. Our advanced internet and mobile banking applications have received many different digital awards from Global Finance, recognising our excellence in Georgia, CEE, and globally. Our mobile banking application enjoys ratings of 4.9 stars in the Google Play store and 4.8 stars in the Apple App Store.

We continuously innovate to offer our customers new products tailored to their needs, which are delivered with high-quality service. We actively listen to our customers and use their feedback to improve our offerings. As a result, we have the highest customer satisfaction scores[1] in the Georgian banking industry and hold a leading position among other major retail companies.

We have introduced several innovative products to make our customers' lives more comfortable, including the first Georgian-speaking chatbot, a mobile wallet, a voice biometric recognition system in our call centre, our Ertguli loyalty programme, as well as student and school banking cards. More information on our customer value proposition can be found in the retail banking section on pages 30-33.

Business customers

We believe that one of our main responsibilities is to help businesses grow and develop. Increasing the number of successful businesses in our country makes it stronger, increases its economic potential and fosters an attractive investment environment.

TBC Bank was a start-up 25 years ago, and we understand the importance of having a steady partner through different development stages. Early-stage businesses need financial assistance as well, but it is common for established banks to refrain from financing them because of the risks associated with start-ups. In 2017, we launched our first project oriented at start-ups, called Startuperi, which aims to mentor start-ups on their strategy, assist them to become thriving businesses and provide financing for further development. The word "startuperi" in Georgian means "start-up nation," reflecting our belief that our country's prosperity is related to the number of flourishing businesses in Georgia. The project has partnerships with several leading companies, offering the participating start-ups tailored services for their needs. This year we co-organised a special annual conference called Spotlight for the start-ups, where the speakers were founders of successful firms sharing their stories of failures and successes. The project has been a huge success since its launch. Start-ups received individual consultations with leading professionals about topics such as marketing, human resources, management, finance and taxes. In total, up to 13,000 start-ups were involved, and we disbursed 168 loans totalling GEL 21.0 million in financing for their businesses.

1 Based on surveys conducted by independent research companies: IPM and ACT

Furthermore, we have provided more than GEL 160.4 million for micro, small and medium enterprises (MSMEs) in rural areas, supporting agriculture, manufacturing, tourism and other economic activities in those regions. We also continue to support MSMEs through our business support programme, which we launched in 2013. The programme offers free training courses, individual consultations, networking events, conferences and masterclasses. During the past year, around 4,400 companies have attended the training courses and workshops, and 116 MSMEs have received individual consultations. Participation in the business support programme is free of charge.

Another remarkable idea put into action in 2017 was making basic information about various industries easily accessible for businesses. We collaborated with Georgia's Revenue Service to analyse available public data and create a business map that is accessible to any person free of charge, allowing them to benchmark against actual average industry metrics like revenues, costs, number of employees and payroll. This tool will enable companies to measure their place and performance against their competitors.

This year, we held our annual business awards ceremony for the second time. After the successful ceremony last year, this year the number of participants increased up to 700. The awards ceremony promotes entrepreneurship in Georgia and presents thriving business examples to a wider audience, encouraging innovative businesses to set up. The event was covered by traditional and social media channels, reaching 5.3 million views. For the 2017 business awards, we introduced a new "Business of the Year" category. To select a winner for the new category, we paid special attention to a company's corporate responsibility strategy and assessed their activities, along with other criteria.

Georgia's mountainous regions are an area that is less developed, but has high potential to grow economically and attract a significant number of tourists to the country due to their unique nature and beauty. Georgian ski resorts are becoming increasingly popular but need support to transform them into high-class destinations with proper infrastructure, thereby improving their reputations among tourists. We have been supporting Georgian mountain resorts since 2016. The primary focus of our partnership is developing infrastructure and innovative payment systems at Georgian mountain resorts, which will improve their efficiency and facilitate increased demand for skiing treks, positively reflecting on the Georgian economy and promoting local businesses.

Priorities for 2018

In 2018, we will carry on innovating and developing new offerings for our customers, as well as continue focusing on increasing customer satisfaction levels.

We will also increase lending volumes in rural areas to encourage economic activities and help to lower the unemployment rate in those regions. We firmly believe that each employee is part of our success and we are committed to attracting and retaining top talent by providing competitive remuneration and attractive benefits; fostering fair, honest and collaborative working relationships; and supporting professional development. As of the end of 2017, we employed more than 7,000 people who all share the same values and are dedicated to achieving our vision of becoming the best digital financial services company in the region[2].

OUR PEOPLE

Promoting equal opportunity

We are an equal-opportunity employer and do not discriminate based on race, ethnicity, religion, gender, age or disability. We aim to create a corporate culture that welcomes and benefits from diversity.

We promote gender equality and support women in the workforce. We are proud that women comprised 67% of our total workforce at the end of 2017. To better support women employees, we offer them six months of maternity leave at full pay and other childcare benefits.

Years with TBC Bank, 2017

0-1 years	29%
1-5 years	37%
5-10 years	22%
>10 years	12%

We give fair consideration to job applications from candidates who may have disabilities. We also support and retain employees who become disabled during their employment at TBC Bank and aim to adjust our workplace in order to make it more comfortable for disabled people.

Board of directors

	2017	2016
Male	100%	100%
Female	0%	0%

Top management

	2017	2016
Male	88%	88%
Female	12%	12%

Middle management

	2017	2016
Male	66%	65%
Female	34%	35%

All employees

	2017	2016
Male	33%	35%
Female	67%	65%

2 Region in this context comprises Armenia, Azerbaijan and Georgia

Performance assessment

The Bank runs a transparent and fair assessment system to evaluate the performance and skills of all employees. Actively engaging employees in their goal setting, monitoring performance progress and providing constructive feedback are the key components of our performance assessment system.

We use the management-by-objectives (MBO) system for most of our back-office staff, under which specific objectives, aligned to the organisational goals, are defined and agreed at the beginning of the assessment period. After setting goals, employees have a clear understanding of their roles, responsibilities and contribution to the Group's overall strategy. The process includes ongoing tracking and semi-annual feedback on employee achievements. The scoring system is the same for all employees within the MBO system and ensures fairness throughout the organisation.

For front-office staff, we have a target-based system developed by external consultants. Under our target-based system, employee performance is linked to quantitative and qualitative KPIs that are closely aligned to the Group's strategic objectives. Compared with the MBO system, the target-based system's progress is measured monthly, quarterly or annually.

We also run a 360-degree feedback system for our middle managers, which allows them to receive a well-rounded and balanced view of their skills and behaviours, assisting them to build on current strengths and develop new skills.

To further enhance our performance-assessment system for middle management, in 2017, we introduced a new system that we developed together with Mercer, a leading international HR consulting company. The new system utilises a more standardised approach and helps to better align the managers' tactical goals with the Group's overarching strategy, and assists them in developing critical competencies.

Financial rewards and non-monetary benefits

To attract and retain the best talent, we offer a competitive remuneration and market-leading benefits package. Our employee remuneration package consists of monthly salaries and an attractive bonus scheme, which vary by position and are linked to performance. To promote a longer-term view and align middle managers' interests with those of shareholders, we offer a deferred share bonus scheme, whereby 15-20% of the annual bonus is paid in TBC PLC shares with a three-year vesting period as follows: 10% is awarded on the first anniversary of the award, a further 10% on the second anniversary and the remaining 80% on the third anniversary. The company awarded around 136,000 shares as annual bonuses in 2018 based on 2017 performance. The directors' remuneration system is described in detail in the remuneration report on pages 126 to 147.

We provide our colleagues with attractive insurance and pension benefits, six months of maternity and paternity leave at full pay, and paid annual and sick leave. We also offer corporate mobile numbers with free internal calls and special discounted fees for other calls. In the case of both marriage and childbirth, we provide our team members and their families with monetary awards, as well as compensation in the case of serious illness or death. We also support large families and provide a special, one-time gift of GEL 10,000 to all TBC Bank employees upon the birth of their fourth child or more.

Talent attraction and development

As we believe that our people are one of our key competitive advantages, we seek to recruit, retain and develop highly qualified and engaged individuals.

We actively participate in numerous job fairs organised by top universities and leading HR consultancies to help us in selecting the best candidates with the highest growth potential.

Since 2012, we have run a special internship programme for college students in their third or fourth year of study. We partner with top Georgian universities and give the best students an opportunity to become part of our team. During our one-year internship programme, students can rotate through different departments of the bank. After they complete their internships, we offer permanent jobs to the most successful trainees. We pride ourselves on being named the best supporter of education in 2017 by Free University of Tbilisi, the leading university in Georgia.

Supporting the development of our people and helping them to realise their potential is one of our top priorities. For this purpose, we offer various in-house training sessions and courses, in addition to sponsoring various international certification programmes, including CFA, ACCA and FRM, for all our employees. We also provide financial support to our brightest people to pursue graduate education at leading universities worldwide. In 2017, 19 managers received TBC scholarships.

Since 2011, the Bank has run TBC Academy, an in-house educational centre available to all employees that offers numerous courses in banking and related fields. The Bank's top and middle management teach the courses. For new employees, we provide introductory training in order to share with them our corporate values and culture, and to give them a brief overview of the Group. In 2017, several new classes were added, including regulations, ethics and financial fraud management, as well as soft skills like leadership and change management. In addition, we regularly organise various job-related training for our employees. We also use a distance learning system for many training programmes, allowing employees more flexibility in completing the courses. Furthermore, in May 2017, we started a session of masterclasses for personal development, which were delivered by leading professionals who shared their knowledge and experience with our employees. In total, six masterclasses were held, and more than 1,800 employees attended.

Employee motivation and engagement

We constantly work on improving our people's motivation and engagement levels by exploring their interests and doing our best to surprise and celebrate with them.

To support internal communications, we have established several clubs based on employee interests that unite photographers, football lovers, TBC talents and employees with other interests. Clubs bring together employees from different departments and give them an opportunity to get to know each other, share their ideas and views. One such employee gathering is an internal championship of the intellectual game "What? Where? When?" in which over 30 teams participated.

To promote a healthy work - life balance, we organise weekend field trips, team-building events and retreats for our employees, as well as numerous internal championships, including bowling, football, basketball and sand rugby. We also participate in external running competitions and various sporting events. As part of our efforts to promote a healthy lifestyle, we offer our employees medical check-ups and free consultations. In 2017, nearly 2,000 employees benefited from these benefits. In addition, our team members can receive special discounts and offers at various sport centres. Most of our employees also donate up to 2% of their salary to the TBC Fund, which supports our team members and their relatives with severe diseases and helps to finance their medical treatment costs. TBC Fund was established in 2009 and has since helped around 1,000 people.

For middle management, we organise annual overseas workshops. As national rugby team supporters, we try to combine these workshops with important rugby matches. Last year, we supported our national team in an autumn test match with Scotland. In 2017, we took our middle managers to Wales to support the Georgian national rugby team in a challenging game versus Wales as part of Autumn Internationals 2017. This type of event both creates strong team spirit and is in line with our strategy of becoming the ambassadors for rugby in Georgia.

As we care about our employees' appearance and comfort, this year we decided to upgrade our corporate apparel. To take into consideration our employees' ideas and wishes, we conducted a survey that more than 2,500 employees participated in. Based on the survey results, we created 10 different designs of scarves and ties in partnership with leading Georgian designers. These accessories were distributed to front-office employees as gifts and are also available for sale at our corporate online brand shop. Our brand shop is subsidised by TBC Bank and features other products as well, including branded stationery, clothing, accessories and gift items. We continuously add new collections to our brand shop that are designed exclusively for TBC Bank.

We offer our employees various promotions and discounts through our internal network, including free tickets to exhibitions, the cinema, opera and ballet, and rugby games. We also host book fairs, where our employees can buy books with special discounts. In addition, we provide back-to-school packages to the youngest members of our "TBC family".

Regular communication with employees is an integral part of our corporate culture. We strive to provide our employees with the latest information and developments about the Group. Since 2012, we have conducted an annually employee satisfaction and engagement survey to get feedback from our staff and take actions accordingly. These surveys are conducted in partnership with leading international universities and research firms. Our most recent survey, conducted in December 2017, generated an employee engagement index as high as 91%[1] and employee net promoter score of 55.

1 91% of all employees feel involved and committed to TBC Bank

Ethics and conduct

We aspire to conduct business in a way that promotes high ethical standards, values and respects human rights, and encourages our employees to act with integrity and responsibility towards each other and our customers, partners and community.

For this purpose, we have implemented a set of internal policies and procedures and closely monitor their execution:
- Code of Ethics
- Code of Conduct
- Anti-Bribery, Anti-Corruption and Prevention of the Facilitation of Tax Evasion Policy (which was approved in January 2018 to replace the former Anti-Bribery and Anti-Corruption Policy)
- Whistleblowing Policy

These policies can be found on our IR website at www.tbcbankgroup.com.

The Code of Ethics and Code of Conduct regulate employee rights and responsibilities, and set appropriate relationship norms and principles. TBC Bank's employees are expected to act honestly and fairly at all times and to comply with both the spirit and intent of all laws. All employees are responsible for ensuring that the working environment is free of any form of harassment, discrimination (including gender, age, physical disability or religious affiliations) or inappropriate behaviour. In dealing with customers, the TBC Bank is dedicated to offering top-quality products and services, as well as to providing straightforward information. In regard to suppliers, the Group engages only in arm-length transactions.

Compliance with the Group's Code of Ethics and Code of Conduct is closely monitored by the HR Department, Compliance Department and Information Security Department on regular basis. Periodic audits are also conducted by the Internal Audit Department 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 2017.

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 employee protection and improve working conditions, we have a whistleblowing policy in place that is available to all employees and aims to identify and respond to potential violations that may jeopardise employee work effectiveness. The policy encourages all employees to report on any suspected violations in an open manner without fear of retaliation. In addition, TBC Bank provides channels for anonymous whistleblowing 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 safe 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 behaviour. No such material instances were identified during 2017. In terms of whistleblowing, 45 whistleblowing reports were received according the Group's internal policy, which were escalated and resolved, as appropriate.

Priorities for 2018

To maintain and enhance our position as one of the most desired employers in the country, we continuously work in partnership with the leading HR consulting companies to further improve our human resources systems and remain abreast of new market trends.
Our 2018 initiatives include:
- introducing a job classification system, which means assessing and grading head office staff positions. The job classification system will make it easier to compare different positions throughout the Bank and will facilitate transparent and consistent people management and career development processes; and
- implementing a self-service platform through our internal network and mobile application, which will allow each employee to control their job-related information, such as updating personal information, applying for annual leave or registering for health insurance. Employee self-service systems will help us to save time, make processes easier and more efficient, and give our employees more autonomy to manage their employment-related issues.

OUR COMMUNITY

We take care of our community and support those areas that are pivotal for our country and its future: the young generation, sports and culture. These are the directions that we believe require the most attention to develop and foster success.

Young generation

As the leading Georgian bank, we are convinced that it is our social responsibility to set examples and encourage the young generation to succeed. In 2017, we continued to sponsor numerous campaigns encouraging young people to undertake challenging endeavours.

For the second year in a row, we hosted the Da Vinci scientific festival, which aims to popularise STEM fields among young people. The winning team received a one-year scholarship from TBC Status. We also supported last years' winners to participate in the Intel International Science and Engineering Fair. Our talented participants took third place out of 800 teams. Besides the local festival, TBC Bank sponsored the participation of Georgian teams in the international scientific Olympiads, such as First Global, Intel International Science and Engineering Fair, etc.

To encourage innovative business ideas and entrepreneurship, TBC Bank's Startuperi programme, in partnership with Estonian firm Garage 48, organised a three-day training course for Georgian students in small towns. Students received training from leading marketers, software developers, project managers and, on the last day, had to work on an idea and create a prototype of their product. The winning teams participated in a hackathon organised in Tbilisi. More than 100 people with a start-up mindset took part in the hackathon, creating business prototypes for gamification and entertainment.

After renovating Tbilisi's renowned Mziuri Park and opening the non-profit Mziuri Cafe last year, we continued to support the cafe. We also initiated Sunday meetings for primary schoolchildren, where invited experts would discuss a variety of intriguing topics and develop children's curiosity and fantasy.

Statusdonates.ge

In the beginning of 2017, TBC Bank's private banking brand, TBC Status, launched statusdonates.ge, an innovative donation platform featuring different stories of people in need, organisations or specific projects. Short movies are made on each story and uploaded to the platform, where people can view and choose which project they want to support. The platform is innovative, since it mainly focuses on supporting success and it gives donors an opportunity to select a particular case that they want to support. Different stories are submitted to appear on the platform, but a specially designated committee reviews cases and selects the most appropriate ones. Since its launch, statusdonates.ge has financed 13 projects.

Rugby

TBC Bank is a title sponsor of the Georgian Rugby Union and supports numerous tournaments throughout the year. We have a long-term partnership with the Rugby Union and, in addition to the sponsorship, we use our social media channels to promote the sport of rugby and increase the number of national team fans.

Georgian rugby had a remarkable year in 2017; it is the first time that the country hosted the World Rugby Under-20 Championship. A total of 12 leading teams from all over the world visited Georgia in June to play in the Championship, which is the second most important event in rugby, following the Rugby World Cup.

Our partnership with Rugby Union entered a new phase in November, when we branded the autumn international rugby test-series as the TBC Rugby Series, attracting more fans to the matches. This is another example of our successful cooperation with sports.

Culture

TBC Bank remains an avid supporter of Georgian culture, including the visual arts, literature and ballet. During the past 25 years, we have organised numerous exhibitions, supported young artists and financed the restoration of artwork.

In 2017, we restored two masterpieces by prominent Georgian painter Niko Pirosmani, "Tamar King" and "Rustaveli", providing an opportunity for Georgian society to view these unique paintings for the first time. TBC Bank also organised special educational tours for schoolchildren to introduce them to Pirosmani's life and work.

Another significant exhibition during the year was presenting the works of Petre Otskheli, one of the founders of Georgian modernism. For the 110th anniversary of Otskheli's birth, we financed the conservation and restoration of 30 paintings. The exhibition drew special attention from a wider audience and received excellent reviews.

In 2003, TBC Bank established Saba, the main literary award in Georgia. Since then, it remains the country's most prestigious annual cultural event. Saba popularised not only known Georgian writers, it also helped to uncover new talent and introduce them to a wider audience. In 2017, Saba introduced a mobile audiobook application that provides free audiobooks to blind users.

Another milestone project that began in 2016 is the translation platform supported by Microsoft, GeoLab, Leavingstone, PH International and TBC Bank. For the project, more than 500 million Georgian sentences from the database of the Georgian e-book application, Saba, were analysed, translated and contributed to the platform. Translated sentences were loaded into Microsoft's machine-learning platform. As a result, the Microsoft text API will support the Georgian language and will accurately translate Georgian sentences into English. Microsoft has already started to integrate Georgian language translation capability into its products, such as the Bing search engine, Microsoft Office, Skype, etc. This is an important advancement for the Georgian language in the information age.

Another initiative that we have curated since 2013 is Artarea, the first online TV Channel dedicated to art and culture. The channel offers its viewers various culturally themed lectures, recommendations, entertainment programmes and live concerts, which are quite popular among all generations. One of the most successful projects is Tbilisuri Ezo (Tbilisian Yard), which gathers an audience in a random yard of Old Tbilisi and organises a classical music concert by the National Symphony Orchestra.

Priorities for 2018

While TBC Bank continues growing and developing as a financial institution, we reaffirm adherence to our chosen directions: the young generation, culture and sports. We are convinced that these are the key areas where we can have a positive impact on the community and dedicate our efforts to building a prosperous country.

In 2018, we will increase the number of projects that we support, in line with our strategy; actively promote them; and ensure that they remain transparent, to allow more people to benefit from our endeavours. As the number one bank in Georgia, we will set a leading example and encourage other businesses to engage in corporate responsibility activities.

ENVIRONMENT

As the largest banking group in the country, we fully understand the importance of doing business with minimal impact on the environment. We are strongly committed to preserving the environment by operating our business in a sustainable and ethical manner, and to take action to reduce our negative impact from both direct and indirect activities.

Lending responsibly

We lend responsibly and do not finance projects that have an adverse environmental or social impact. For this purpose, the Bank has adopted an Environmental and Social Risk Management Policy to ensure compliance with local environmental legislation and applicable international guidelines. It outlines our liabilities in terms of impact on both the environment and communities.

Compliance with the Bank's Environmental and Social Risk Management Policy is closely monitored by the Social and Environmental Risk Manager. In terms of lending activities, credit officers undertake periodic monitoring visits to their clients to ensure that all environmental and social norms are adhered to. Periodic audits are also conducted by Internal Audit Department in order to identify any breaches. No such material breaches of the Bank's Environmental and Social Risk Management Policy were identified during 2017.

We are also committed to promoting eco-friendly projects. This year we attracted around US$70 million in the form of debt finance from international financial institutions to foster investments in areas related to energy efficiency, renewable energy and pollution reduction.

Waste management and energy conservation

Since 2016, TBC Bank has implemented a waste management programme that has been approved by Georgia's Ministry of Environment and Natural Resources Protection and has ensured that we closely monitor and effectively manage our non-hazardous and hazardous waste.

The non-hazardous waste mainly arises 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 Georgia's mountainous regions. This year we introduced several changes to reduce the usage of paper in line with the Bank's Environmental and Social Risk Management Policy. In June 2017, we transformed several client authorisation procedures paperless and saved around 1.7 million sheets of paper. We also simplified our banking product agreements and reduced the number of pages per agreement. Moreover, our customers can apply for and receive pre-approved fast consumer loans via remote channels, meaning that no additional paperwork is needed for disbursing a loan. In 2017 we disbursed around 23,000 such loans.

For hazardous office waste, such as printer cartridges, we collaborate with a company that specialises in supplying new cartridges and recycling used ones.

Since 2016, we have used only energy-efficient LED lighting in our premises, which has helped us to reduce the consumption of electricity by around 9% this year. In addition, we operate an energy-efficient heating and cooling system in our offices.

Greenhouse gas emissions

As one of the largest financial institutions in Georgia and a premium-listed company trading on the LSE, TBC Bank has a commitment to calculate and report upon its greenhouse gas (GHG) emissions from the usage of fuel and electricity for its direct operations. To this end, we commissioned the Energy Efficiency Centre Georgia (EECG) to prepare a report on GHG emissions from activities for which TBC Bank is responsible. This report allowed us to obtain a more complete picture of our direct impact in 2017 and 2016, by calculating GHG emissions from TBC Bank's business activities in tonnes of carbon dioxide (CO_2) equivalent, based on the scopes set out in the GHG protocol (Scopes 1, 2 and 3).

	Total CO_2e emissions data for the FY 2017	Total CO_2e emissions data for the FY 2016
	Tonnes	**Tonnes**
Scope 1*	2,409	1,804
Scope 2	1,375	1,147
Scope 3	366	268
Total emissions	4,150	3,219
Total emission per full time employee	0.60	0.52

* Scope 1 – 1,538 CO_2e emissions in tonnes (from combustion of fuel (NG) from owned operation and facilities of TBC Bank) in 2017 compared to 1,209 CO_2e in 2016
763 CO_2e emissions in tonnes (from owned vehicles of TBC Bank) in 2017 compared to 533 CO_2e in 2016
108 CO_2e emissions in tonnes (from owned generators of TBC Bank) in 2017 compared to 63 CO_2e

Whilst we remain committed to reducing our GHG emissions, the increase in our CO_2 emissions between 2016 and 2017 is, in part, attributable to TBC Bank's increased scale of operations following the completion of TBC Bank's acquisition of Bank Republic in 2017, and partially the result of a change in methodology, which incorporated an assessment of 100% of TBC Bank's operations in 2017.

Calculation methodology

The EECG report considers all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (Scope 1 and 2) and the emission sources under Scope 3 that are applicable to our business. In preparing the emissions data, the World Resources Institute (WRI) "Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition)", emissions factors from the UK government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and national Provider, Intergovernmental Panel on Climate Change (IPCC) emission factors for electricity (tCO_2*/MWhe) were used. The required data was collected and the report developed to address the scope of TBC Bank's main banking activities, which includes all offices and/or retail branches where TBC Bank has operational control, as follows:

Scope 1 (combustion of fuel and operation of facilities) includes emissions from combustion of natural gas, diesel and/or petrol in equipment at owned and controlled sites. It also includes combustion of, among others, petrol, diesel fuel and natural gas in owned transportation devices.

Scope 2 (purchased electricity for own use, i.e. lighting, office appliances, cooling, etc) includes emissions from used electricity at owned and controlled sites. To calculate the emissions, the conversion factor for Non-OECD Europe and Eurasia (average) conversion from the UK Government's Greenhouse Gas Conversion Factors for Company Reporting 2017 and national IPCC emission factors for electricity (tCO_2*/MWhe) have been used.

Scope 3 includes emissions from air business travels (short haul, medium haul, long haul and international haul).

Overview

These financial results are presented for TBC Bank Group PLC ("TBC Bank" or "the Group"), which was incorporated on 26 February 2016 as the ultimate holding company for JSC TBC Bank. TBC Bank became the parent company of JSC TBC Bank on 10 August 2016, following the Group's restructuring. As this was a common ownership transaction, the results have been presented as if the Group existed at the earliest comparative date as allowed under the International Financial Reporting Standards ("IFRS") as adopted by the European Union. TBC Bank successfully listed on the London Stock Exchange's premium listing segment on 10 August 2016.

In Q4 2016, TBC Bank acquired Bank Republic (BR) which has been consolidated into the Group's results.

Results reported below prior to 30 September 2016 relate to the group previously headed by JSC TBC Bank.

TBC Bank Group PLC financial results are prepared in accordance with International Financial Reporting Standards (as endorsed by the European Union) ("IFRS") and are adjusted for certain one-off items to enable better analysis of the Group's performance. The reconciliation of the underlying profit and loss items with the reported profit and loss items and the underlying ratios are given under annex 1 section on pages 99-100. To further enhance the analysis, the Group separately discloses BR effects in 2016 and 2017. Detailed information is given in annex 2 section on pages 100-103.

Tax strategy

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

Our objectives are built around the following key principles:

- transparency;
- responsibility; and
- effective interaction with tax authorities.

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

IFRS 9 implementation

In January 2018, we have completed the IFRS 9 implementation, which is expected to increase the provision level by GEL 64 million and our non-performing loans coverage ratios with IFRS impact will stand at 104.7% or 209.4% including collateral. As anticipated, IFRS 9 will have no impact on our local regulatory capital requirements as established by NBG and profit and loss statement.

Financial highlights

FY 2017 profit & loss highlights

- **Underlying[1] net profit amounted to GEL 369 million,** up by 35.1% YoY, **hence delivering an underlying ROE of 21.4%** (FY 2016: 20.6%)
- *Reported net profit was up by 20.7% YoY to GEL 360 million, delivering a reported ROE of 20.9% (FY 2016: 22.4%)*
- **Underlying[1] ROA was 3.2%** (FY 2016: 3.6%)
- *Reported ROA was 3.1% (FY 2016: 3.9%)*
- **Total operating income for the period was up by 26.4% YoY to GEL 861 million**
- Underlying[1] cost to income ratio stood at 40.5% (FY 2016: 42.9%)
- *Reported cost to income stood at 41.7% (FY 2016: 45.8%)*
- **Cost of risk stood at 1.2%** (FY 2016: 1.0%)
- **Net interest margin (NIM) stood at 6.5%** (FY 2016: 7.8%)
- **Risk adjusted NIM stood at 5.1%** (FY 2016: 6.4%)

Balance sheet highlights as at 31 December 2017

- **Total assets amounted to GEL 12,966 million as of 31 December 2017,** up by 20.4% YoY
- **Gross loans and advances to customers stood at GEL 8,553 million as of 31 December 2017,** up by 16.2% YoY
- **Net loans to deposits + IFI funding stood at 92.5% and Net Stable Funding Ratio (NSFR) stood at 124.4%**
- **Non performing loans (NPLs) stood at 3.3%,** down by 0.2 pp YoY
- **NPLs coverage ratios per IFRS 9 will be 104.7% and 209.4% with collateral** (NPL coverage ratios per IAS 39 stood at 81.8% or 186.5% with collateral) on 31 December 2017 compared to 88.4% or 222.5% with collateral on 31 December 2016
- **Total customer deposits stood at GEL 7,817 million as of 31 December 2017,** up by 21.1% YoY
- **As of 31 December 2017, the Bank's Tier 1 and Total Capital Adequacy Ratios (CAR) per new NBG methodology stood at 13.4% and 17.5% respectively,** while minimum requirements amounted to 10.3% and 12.9%

Market shares[2]

- **Market share in total assets stood at 36.4%** up by 1.2 pp YoY
- **Market share in total loans was 38.2% as of 31 December 2017,** down by 0.6 pp YoY
- **In terms of individual loans, the Bank had a market share of 40.2%** (or 42% without Credo Bank effect, which is a former microfinance organisation registered as a bank in Q1 2017 and is mainly focused on retail clients) as of 31 December 2017, down by 4.0 pp YoY. **The market share for legal entity loans was 36.0%** up by 2.5 pp YoY
- **Market share of total deposits stood at 39.8% as of 31 December 2017,** up by 2.0 pp YoY
- **The Bank maintains its long-standing leadership in individual deposits with a market share of 41.3%** up by 0.5 pp YoY. **In terms of legal entity deposits, TBC Bank holds a market share of 37.9%,** up by 3.7 pp YoY.

1 Excluding one-off items. Detailed information and effects are given in annex 1 on pages 99 to 100.

2 Market share figures are based on data from the National Bank of Georgia (NBG). NBG includes interbank loans for calculating market share in loans

Consolidated financial results overview FY 2017

Income statement highlights

In thousands of GEL	2017	2016	Change YoY
Net Interest Income	604,015	490,453	23.2%
Net Fee and Commission Income	125,961	90,268	39.5%
Other Operating Non-Interest Income	131,009	100,341	30.6%
Provisioning Charges	-106,907	-53,395	100.2%
Operating Income after Provisions for Impairment	**754,078**	**627,667**	**20.1%**
Operating Expenses	-359,400	-311,988	15.2%
Profit Before Tax	**394,678**	**315,679**	**25.0%**
Income Tax Expense	-34,750	-17,421	99.5%
Profit for the Year	**359,928**	**298,258**	**20.7%**
Underlying profit for the Year	**369,214**	**273,318**	**35.1%**

Balance sheet and capital highlights

	Dec-17		Dec-16		Change YoY
In thousands	GEL	US$	GEL	US$	%
Total Assets	12,965,910	5,001,894	10,769,032	4,068,699	20.4%
Gross Loans	8,553,217	3,299,598	7,358,725	2,780,234	16.2%
Customer Deposits	7,816,817	3,015,515	6,454,949	2,438,775	21.1%
Total Equity	1,890,454	729,285	1,582,631	597,941	19.5%
Regulatory Tier I Capital (Basel III)*	1,437,218	554,440	N/A	N/A	N/A
Regulatory Total Capital (Basel III)*	1,885,287	727,292	N/A	N/A	N/A
Regulatory Tier I Capital (Basel II/III)**	1,437,218	554,440	1,041,270	393,407	38.0%
Regulatory Total Capital (Basel II/III)**	1,883,835	726,732	1,422,021	537,260	32.5%
Regulatory Risk Weighted Assets (Basel III)*	10,753,189	4,148,287	N/A	N/A	N/A
Regulatory Risk Weighted Assets (Basel II/III)**	13,908,927	5,365,684	10,021,457	3,786,254	38.8%

* Per new NBG regulation, which came into force in December 2017
** Figures for December 2017 are based on internal estimates and are presented for comparison purposes

Key ratios[1]

	2017	2016	Change YoY in pp
Underlying ROE	21.4%	20.6%	0.8
Reported ROE	*20.9%*	*22.4%*	*-1.5*
Underlying ROA	3.2%	3.6%	-0.4
Reported ROA	*3.1%*	*3.9%*	*-0.8*
Underlying Cost to Income	40.5%	42.9%	-2.4
Reported Cost to Income	*41.7%*	*45.8%*	*-4.1*
Cost of Risk	1.2%	1.0%	0.2
NPL to Gross Loans	3.3%	3.5%	-0.2
Regulatory Tier 1 CAR (Basel III)*	13.4%	N/A	N/A
Regulatory Total CAR (Basel III)*	17.5%	N/A	N/A
Regulatory Tier 1 CAR (Basel II/III)**	10.3%	10.4%	-0.1
Regulatory Total CAR (Basel II/III)**	13.5%	14.2%	-0.7
Leverage (Times)	6.9x	6.8x	0.1x

* Per new NBG regulation, which came into force in December 2017
** Figures for December 2017 are based on internal estimates and are presented for comparison purpose

1 Please refer to page 98 for key ratio definitions

Income statement discussion

Net interest income

In thousands of GEL	2017	2016	Change YoY
Loans and Advances to Customers	919,796	688,724	33.6%
Investment Securities Available for Sale	43,735	25,707	70.1%
Due from Other Banks	14,807	4,550	NMF
Bonds Carried at Amortised Cost	32,328	30,714	5.3%
Investment in Leases	23,273	16,566	40.5%
Other	–	165	-100.0%
Interest income	**1,033,939**	**766,426**	**34.9%**
Customer Accounts	233,884	154,840	51.0%
Due to Credit Institutions	157,122	85,030	84.8%
Subordinated Debt	36,975	34,325	7.7%
Debt Securities in Issue	1,943	1,778	9.3%
Interest expense	**429,924**	**275,973**	**55.8%**
Net interest income	**604,015**	**490,453**	**23.2%**
Net interest margin	**6.5%**	**7.8%**	**-1.3pp**

NMF – no meaningful figures

In FY 2017, net interest income grew by 23.2% YoY to GEL 604.0 million (GEL 493.3 million without the Bank Republic estimated contribution effect).

Without the Bank Republic estimated contribution effect, the interest income increased by GEL 142.0 million, or 19.5% YoY, mainly driven by a higher interest income from loans to customers by GEL 114.3 million, or 17.5%. This is primarily related to the 26.2% gross loan portfolio increase. A rise in interest income from investment securities (comprising both investment securities available for sale and bonds carried at amortised cost) of GEL 13.5 million, or 25.1%, also contributed to the overall increase in loan portfolio. That in turn was driven by the significant rise in the respective portfolio. In addition, net interest income from due from other banks grew by GEL 7.7 million, which was also determined by the large increase in respective portfolio.

In FY 2017 the Bank Republic effect mainly contributed GEL 152.0 million, or 16.5% to the interest income from loans and advances to customers, which totalled GEL 919.8 million, and GEL 8.7 million, or 11.5%, to interest income from investment securities, which amounted to GEL 76.1 million. As a result, the overall Bank Republic estimated contribution effect was GEL 163.3 million, or 15.8%, to the interest income.

Loan yields declined over the same period from 13.4% to 12.1%. The drop was driven by a decrease in rates on foreign currency-denominated loans, from 10.4% to 9.1%, as well as by decline in GEL-denominated loan rates from 19.0% to 16.9% broadly in line with the overall market trend. The decline of yields on investment securities, from 8.6% to 7.8%, over the same period is related to a lower average refinance rate in the country in FY 2017 compared to FY 2016. As a result, the yields on average interest earning assets dropped from 12.2% in FY 2016 to 11.1% in FY 2017.

In the reporting period, without the Bank Republic estimated contribution effect, interest expense increased by GEL 115.3 million, or 44.0% YoY. The rise was mainly due to a higher interest expense on customer accounts of GEL 61.2 million, or 41.6%, and due to credit institutions of GEL 54.9 million or 69.8%. The growth in interest expense on both customer accounts and on due to credit institutions was driven by the large increase in respective portfolios related to the overall business growth.

The Bank Republic estimated contribution effect added GEL 25.4 million, or 10.9%, to the interest expense on customer accounts, which amounted to GEL 233.9 million in FY 2017, and GEL 23.5 million or 15.0% to interest expense due to credit institutions, which amounted to GEL 157.1 million. As a result, the overall Bank Republic contribution effect was a GEL 52.5 million, or 12.2%, to the interest expense.

The cost of deposits increased slightly by 0.1pp to 3.4% in FY 2017 and in the same period the cost of borrowing dropped to 6.5%, from 7.0% in FY 2016. This was mainly due to the 1.2 pp decrease in rates on GEL-denominated borrowings and the 0.2 pp decrease in rates on FC-denominated borrowings. As a result, the cost of funding ratio remained flat at 4.5%.

Consequently, NIM was 6.5% in FY 2017, compared to underlying NIM of 7.6% in FY 2016 (or reported NIM of 7.8%)

Fee and commission income

In thousands of GEL	2017	2016	Change YoY
Card Operations	82,525	61,115	35.0%
Settlement Transactions	59,739	43,434	37.5%
Guarantees Issued	15,121	11,699	29.3%
Letters of Credit	5,735	6,215	-7.7%
Cash Transactions	17,424	13,013	33.9%
Foreign Exchange Operations	1,339	1,277	4.9%
Other	12,061	6,047	99.5%
Fee and commission income	**193,944**	**142,800**	**35.8%**
Card Operations	46,360	34,906	32.8%
Settlement Transactions	7,421	5,795	28.1%
Guarantees Issued	1,801	796	126.3%
Letters of Credit	1,072	1,624	-34.0%
Cash Transactions	4,393	2,633	66.8%
Foreign Exchange Operations	94	190	-50.5%
Other	6,842	6,588	3.9%
Fee and commission expense	**67,983**	**52,532**	**29.4%**
Card Operations	36,165	26,209	38.0%
Settlement Transactions	52,318	37,639	39.0%
Guarantees	13,320	10,903	22.2%
Letters of Credit	4,663	4,591	1.6%
Cash Transactions	13,031	10,380	25.5%
Foreign Exchange Operations	1,245	1,087	14.5%
Other	5,219	-541	NMF
Net fee and commission income	**125,961**	**90,268**	**39.5%**

NMF – no meaningful figures

In FY 2017, net fee and commission income totalled GEL 126.0 million, marking an increase of GEL 35.7 million, or 39.5%, compared to FY 2016. The rise resulted mainly from a GEL 14.7 million, or 39.0%, gain in net fee and commission income from settlement transactions; a GEL 10.0 million, or 38.0%, increase in net card operations; a GEL 2.7 million, or 25.5%, rise in net cash transactions, and a GEL 2.4 million, or 22.2%, increase in net guarantees. The Bank Republic estimated contribution was GEL 6.9 million, or 5.5%, in the net fee and commission income.

Net fee and commission income from card operations expanded due to an increase in the number of active cards by 35.6% YoY, as well as a rise in number of POS terminals by 12.1% YoY. Net Fee and commission income from settlement transactions increased mainly due to increased commission income from money transfers by 40% and an increased volume of settlement transactions by 44% for one of the subsidiaries, TBC Pay.

Other operating non-interest income and gross insurance profit

In thousands of GEL	2017	2016	Change YoY
Gains less losses from trading in foreign currencies and foreign exchange translations	91,473	67,762	35.0%
Share of profit of associates	909	–	NMF
Gains less losses/(losses less gains) from derivative financial instruments	-36	-206	-82.5%
Gains less losses from disposal of investment securities available for sale	93	9,293	-99.0%
Revenues from cash-in terminal services	1,093	1,100	-0.6%
Revenues from operational leasing	6,544	5,772	13.4%
Gain from sale of investment properties	4,353	2,623	66.0%
Gain from sale of inventories of repossessed collateral	2,383	2,382	0.0%
Administrative fee income from international financial institutions	–	644	-100.0%
Revenues from non-credit related fines	1,408	658	114.0%
Gain on disposal of premises and equipment	1,017	208	NMF
Other	14,999	9,849	52.30%
Other operating income	**31,797**	**23,236**	**36.8%**
Other operating non-interest income	**124,236**	**100,085**	**24.1%**
Gross insurance profit	6,773	256	NMF
Other operating non-Interest income and gross insurance profit	**131,009**	**100,341**	**30.6%**

NMF – no meaningful figures

In FY 2017 total other operating non-interest income and gross insurance profit increased by GEL 30.7 million, or by 30.6%, YoY to GEL 131.0 million in FY 2017. This increase was mainly driven by a GEL 23.7 million or 35.0% rise in net gains less losses from trading in foreign currencies and foreign exchange translations mainly driven by increased trade volume and Bank Republic contribution. Another large contributor to the increase in other operating non-interest income and gross insurance profit is a GEL 6.5 million increase in gross insurance profit from our subsidiary - TBC Insurance, which was acquired in October 2016. As a result, the Group's consolidated figures include contribution from TBC Insurance only in the 4Q 2016, while it has been consolidated on a full year basis in 2017.

During 2017, we have significantly increased the number of customers to around 277,000 from only 3,000, which in turn led to high increase in gross written premium which amounted to GEL12.2 million in 2017 on a stand-alone basis. As a result, market share increased to 13.3% from 3.5% establishing TBC Insurance as the third-largest player on market.[1]

The growth is also due to a GEL 1.7 million increase in gain from the sale of investment properties as well as GEL 5.2 gain in the "other" subsection of other operating income. The latter is mainly attributable to GEL 2.6 million reimbursed taxes; a GEL 2.9 million related to fair value adjustment of previously acquired portfolio due to a better than expected performance, and a GEL 2.1 million related to a expense-sharing programme by our partner payment technology companies. The rise across these items was largely offset by a GEL 8.8 million drop in net gains less losses from disposal of investment securities available for sale due to a one-off gain from the sale of investment security in Q2 2016.
The Bank Republic's estimated contribution in total other operating non-interest income was GEL 22.8 million or 17.4%, out of which GEL 14.1 million was related to gains less losses from trading in foreign currencies and foreign exchange translations.

1 Source insurance.gov.ge

Provision for impairment

In thousands of GEL	2017	2016	Change YoY
Provision for loan impairment	-93,823	-49,202	90.7%
Provision for impairment of investments in finance lease	-492	-558	-11.8%
Provision for performance guarantees and credit related commitments	-153	-771	-80.2%
Provision for impairment of other financial assets	-12,439	-2,853	NMF
Impairment of investment securities available for sale	–	-11	-100.0%
Total provision charges for impairment	**-106,907**	**-53,395**	**100.2%**
Operating income after provisions for impairment	**754,078**	**627,667**	**20.1%**
Cost of risk	**1.2%**	**1.0%**	**0.2pp**

NMF – no meaningful figures

In 2017, total provision charges rose to GEL 106.9 million, up by GEL 53.5 million, compared to FY 2016, mainly driven by the increased charges on loans by GEL 44.6 million and a GEL 9.6 million rise in provision for impairment of other financial assets. The cost of risk increased by 0.2pp to 1.2%.

Further details on asset quality are available under the Balance Sheet Discussion section.

Operating expenses

In thousands of GEL	2017	2016	Change YoY
Staff costs	203,100	172,221	17.9%
Provisions for liabilities and charges	-2,495	2,210	NMF
Depreciation and amortisation	37,265	28,082	32.7%
Professional services	14,332	29,926	-52.1%
Advertising and marketing services	18,430	13,796	33.6%
Rent	23,132	18,294	26.4%
Utility services	6,067	5,108	18.8%
Intangible asset enhancement	10,304	7,446	38.4%
Taxes other than on income	5,670	4,699	20.7%
Communications and supply	4,063	4,183	-2.9%
Stationery and other office expenses	4,936	3,448	43.2%
Insurance	2,461	2,687	-8.4%
Security services	1,965	1,883	4.4%
Premises and equipment maintenance	5,413	3,889	39.2%
Business trip expenses	2,021	1,880	7.5%
Transportation and vehicles maintenance	1,637	1,386	18.1%
Charity	1,045	884	18.2%
Personnel training and recruitment	1,444	1,272	13.5%
Write-down of current assets to fair value less costs to sell	-538	-4,424	-87.8%
Loss on disposal of inventory	1,239	1,690	-26.7%
Loss on disposal of investment properties	442	61	NMF
Loss on disposal of premises and equipment	492	423	16.3%
Impairment of intangible assets	1,916	2,043	-6.2%
Acquisition costs	2,447	207	NMF
Other	12,612	8,694	45.1%
Administrative and other operating expenses	**121,530**	**109,475**	**11.0%**
Operating expenses	**359,400**	**311,988**	**15.2%**
Profit before tax	**394,678**	**315,679**	**25.0%**
Income tax expense	-34,750	-17,421	99.5%
Profit for the year	**359,928**	**298,258**	**20.7%**
Cost to income	**41.7%**	**45.8%**	**-4.1pp**
ROE	**20.9%**	**22.4%**	**-1.5pp**
ROA	**3.1%**	**3.9%**	**-0.8pp**

NMF – no meaningful figures

Total operating expenses, excluding one-offs and the Bank Republic estimated contribution effect, amounted to GEL 287.7 million, up by GEL 17.5 million, or 6.5% YoY. The growth was mainly driven by a GEL 15.3 million increase in administrative expenses and a GEL 4.4 million rise in depreciation and amortisation.

In FY 2016, the one-off costs related to the Premium Listing and the Bank Republic integration amounted to GEL 16.2 million and GEL 12.2 million respectively. In FY 2017, one-off costs were related to the Bank Republic integration and totalled GEL 10.9 million.

Out of the total operating expenses, the Bank Republic estimated contribution amounted to GEL 60.8 million, or 16.9%, of which staff costs amounted to GEL 35.2 million and administrative and other operating expenses to GEL 20.9 million. Total operating expenses including one-offs and the Bank Republic estimated contribution effect amounted to GEL 359.4 million.

Annualised cost synergies are expected to be GEL 24 million. In 2017, the estimated realised synergies were around GEL 20.5 million. As a result, the cost to income ratio stood at 41.7% (40.5% with one-offs) in FY 2017, compared to 45.8% (42.9% with one-offs) in FY 2016.

Balance sheet discussion

In thousands of GEL	Dec-17	Dec-16	Change
Cash, Due from Banks and Mandatory Cash Balances with NBG	2,504,938	1,960,547	27.8%
Loans and Advances to Customers (Net)	8,325,353	7,133,702	16.7%
Financial Securities	1,107,476	803,659	38.0%
Fixed and Intangible Assets & Investment Property	529,637	470,604	12.5%
Other Assets	498,506	400,520	24.1%
Total Assets	**12,965,910**	**10,769,032**	**20.4%**
Due to Credit Institutions	2,620,714	2,197,577	19.3%
Customer Accounts	7,816,817	6,454,949	21.1%
Debt Securities in Issue	20,695	23,508	-12.0%
Subordinated Debt	426,788	368,381	15.9%
Other Liabilities	190,442	141,986	34.1%
Total Liabilities	**11,075,456**	**9,186,401**	**20.6%**
Total Equity	**1,890,454**	**1,582,631**	**19.5%**

Assets

As of 31 December 2017, TBC Bank's total assets amounted to GEL 12,965.9 million, up by GEL 2,196.9 million, or 20.4%, YoY. This was mainly due to the increase in gross loans to customers by GEL 1,194.5 million, or 16.2%. In addition, the YoY rise resulted from a GEL 303.8 million, or 37.8%, increase in financial securities, a GEL 486.3 million or 51.5% increase in cash and cash equivalents, a GEL 52.9 million, or 16.8% increase in premises and equipment and a GEL 22.5 million, or 37.0% increase in intangible assets, largely attributable to the Bank Republic estimated contribution effect.

Asset quality

PAR 30[1] by segments and currencies

	Dec-17			Dec-16*		
PAR 30	GEL	FC	Total	GEL	FC	Total
Corporate	0.0%	2.0%	**1.5%**	0.0%	1.4%	**1.0%**
Retail	2.9%	2.0%	**2.4%**	2.5%	2.3%	**2.4%**
MSME	1.5%	3.1%	**2.5%**	1.8%	3.5%	**3.0%**
Total	**2.1%**	**2.2%**	**2.2%**	**1.9%**	**2.3%**	**2.2%**

1 loans overdue by more than 30 days to gross loans
* Par 30 for December 2016 is given per new segmentation

Total

The total PAR 30 ratio remained stable YoY at 2.2%. PAR 30 in local currency increased by 0.2pp to 2.1%, while PAR 30 in foreign currency dropped by 0.1pp to 2.2%.

Retail

The retail segment PAR 30 amounted to 2.4%, unchanged from December 2016. The Retail PAR 30 in local currency increased by 0.4pp to 2.9%, while PAR 30 in foreign currency declined by 0.3pp to 2.0%.

Corporate

The corporate segment PAR 30 amounted to 1.5%, an increase of 0.5pp YoY. The increase is driven by one large borrower falling in PAR 30; this exposure is guaranteed by the AAA-rated Export Development Agency, according to international credit rating agencies.

The corporate PAR 30 in local currency remained stable at 0.0%, while PAR 30 in foreign currency rose by 0.6pp to 2.0%.

MSME

The MSME segment PAR 30 amounted to 2.5%, down by 0.5% YoY. The decrease is driven by overall improved performance of the book. The MSME PAR 30 in local currency decreased by 0.3pp to 1.5%, while PAR 30 in foreign currency decreased by 0.4pp to 3.1%.

NPLs

NPLs	Dec-17 GEL	Dec-17 FC	Dec-17 Total	Dec-16* GEL	Dec-16* FC	Dec-16* Total
Corporate	0.0%	4.2%	3.2%	0.7%	6.1%	4.8%
Retail	2.6%	2.8%	2.7%	1.8%	3.0%	2.5%
MSME	2.2%	6.0%	4.6%	1.8%	4.9%	4.0%
Total	**2.1%**	**4.1%**	**3.3%**	**1.6%**	**4.4%**	**3.5%**

* NPL for December 2016 is given per new segmentation

Total
Total NPLs stood at 3.3% down by 0.2 pp on YoY basis. The NPLs in local currency increased by 0.5pp to 2.1%, while NPLs in foreign currency decreased by 0.3pp to 4.1%.

Retail
Retail NPLs stood at 2.7% up by 0.2pp on YoY. The Retail NPLs in local currency increased by 0.8pp to 2.6%, while NPLs in foreign currency declined by 0.2pp to 2.8%.

Corporate
Corporate NPLs stood at 3.2%, down by 1.6pp on a YoY basis. The decline was driven by the write-off of one large corporate borrower in Q1 2017, which was almost fully provisioned, as well as by improved financial conditions of several other borrowers.

The corporate NPLs in local currency decreased by 0.7pp to 0.0%, while NPLs in foreign currency dropped by 1.9pp to 4.2%.

MSME
MSME NPLs expanded by 0.6pp on a YoY basis to 4.6%. The YoY increase is driven by worsened financial standing of a few borrowers.

The MSME NPLs in local currency increased by 0.4pp to 2.2%, while NPLs in foreign currency increased by 1.1pp to 6.0%.

NPLs coverage	Dec-17 (including IFRS9 impact) Excl. collateral	Dec-17 (including IFRS9 impact) Incl. collateral	Dec-16* Excl. collateral	Dec-16* Incl. collateral
Corporate	86.6%	211.0%	91.8%	262.2%
Retail	154.0%	237.3%	106.6%	205.6%
MSME	54.6%	170.6%	57.7%	186.4%
Total	**104.7%**	**209.4%**	**88.4%**	**222.5%**

* NPLs coverage for December 2016 is given per new segmentation

Total
NPL coverage ratios per IAS 39 stood at 81.8% and 186.5%, including collateral.

Retail
NPL coverage ratios per IAS 39 stood at 120.8% and 204.1%, including collateral.

Corporate
NPL coverage ratios per IAS 39 stood at 63.2% and 187.7%, including collateral.

MSME
NPL coverage ratios per IAS 39 stood at 46.1% and 162.2%, including collateral

Liabilities

As of 31 December 2017, TBC Bank's total liabilities amounted to GEL 11,075 million, up by 20.6% YoY. The YoY growth of GEL 1,889.1 million was primarily due to a GEL 1,361.9 million, or 21.1%, increase in customer deposits. Total liabilities also grew following the increase in amounts due to credit institutions by GEL 423.1 million as well as a rise in subordinated debt by GEL 58.4 million.

Liquidity

The Bank's liquidity ratio, as defined by the NBG, stood at 32.5% as of 31 December 2017, compared to 30.8% as of 31 December 2016. The newly introduced short-term liquidity ratio, total LCR, as defined by NBG, stood at 112.7% above the 100.0% limit. The LCR for GEL and FC stood at 95.6% and 122.9% respectively, both higher than their respective limits of 75% and 100%.

Total equity

As of 31 December 2017, TBC's total equity amounted to GEL 1,890 million, up from GEL 1,583 million as of 31 December 2016. The YoY change in equity was mainly due to the net profit contribution of GEL 359.9 million, which was offset by a GEL 74.8 million dividend distribution (gross of tax and consisting of GEL 66.7 million cash-based and GEL 8.1 million share-based).

Regulatory capital

In December 2017, the National Bank of Georgia introduced new capital adequacy requirements in order achieve better compliance with Basel III framework.

The regulatory Capital Adequacy Ratios (CAR) is already based on the new regulation. As of 31 December 2017, the Bank's Basel III Tier 1 and total CAR stood at 13.4% and 17.5%, compared to the required levels of 10.3% and 12.9%, respectively. The Bank's Basel III Tier 1 Capital amounted to GEL 1,437 million and Bank's Basel III Total Regulatory Capital amounted to GEL 1,885 million. Risk Weighted Assets amounted to GEL 10,753 million as of 31 December 2017.

Results by segments and subsidiaries

The segment definitions are:

- Corporate – Legal Entities with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to US$ 1.5 million or more. Some other business customers may also be assigned to this segment or transferred to the MSME segment on a discretionary basis.
- MSME (Micro, Small and Medium Enterprises) – all business customers who are not included in either Corporate and Retail segments; or Legal Entities who have been granted a pawn shop loan;
- Retail – all non-business individual customers or individual business customers who have been granted a loan in an amount equivalent below US$ 8.0 thousand. All individual customers are included in retail deposits; and
- Corporate centre – comprises the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

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

Income Statement by Segments

2017	Corporate	Retail	MSME	Corp. Centre	Total
Interest Income	203,082	535,851	184,008	110,998	1,033,939
Interest Expense	-103,707	-118,516	-11,661	-196,040	-429,924
Net Transfer Pricing	22,489	-73,141	-51,488	102,140	–
Net Interest Income	**121,864**	**344,194**	**120,859**	**17,098**	**604,015**
Fee and Commission Income	30,037	140,582	20,335	2,990	193,944
Fee and Commission Expense	-6,942	-51,199	-8,949	-893	-67,983
Net fee and Commission Income	**23,095**	**89,383**	**11,386**	**2,097**	**125,961**
Gross Insurance Profit	–	–	–	6,773	6,773
Gains Less Losses from Trading in Foreign Currencies	38,885	22,597	26,885	-1,268	87,099
Foreign Exchange Translation Gains Less Losses	–	–	–	4,374	4,374
Net Losses from Derivative Financial Instruments	–	–	–	-36	-36
Gains Less Losses from Disposal of Investment Securities Available for Sale	–	–	-	93	93
Other Operating Income	13,465	12,670	1,726	3,936	31,797
Share of profit of associates	–	–	–	909	909
Other Operating Non-Interest Income	**52,350**	**35,267**	**28,611**	**14,781**	**131,009**
(Provision)/ Recovery of provision for Loan Impairment	27,031	-106,579	-14,275	–	-93,823
(Provision)/Recovery of Provision for Liabilities, Charges and Credit Related Commitments	183	-261	467	-542	-153
Provision for Impairment of Investments in Finance Lease	–	–	–	-492	-492
Provision for Impairment of other Financial Assets	-7,666	-17	-64	-4,692	-12,439
Operating income after provisions for impairment	**216,857**	**361,987**	**146,984**	**28,250**	**754,078**
Staff Costs	-25,989	-128,331	-31,225	-17,555	-203,100
Depreciation and Amortisation	-1,438	-29,813	-4,972	-1,042	-37,265
Recovery of provision for Liabilities and Charges	–	–	–	2,495	2,495
Administrative and Other Operating Expenses	-7,457	-81,356	-15,118	-17,599	-121,530
Operating Expenses	**-34,884**	**-239,500**	**-51,315**	**-33,701**	**-359,400**
Profit before Tax	**181,973**	**122,487**	**95,669**	**-5,451**	**394,678**
Income Tax Expense	-27,738	-15,527	-13,820	22,335	-34,750
Profit for the Year	**154,235**	**106,960**	**81,849**	**16,884**	**359,928**

Portfolios by Segments

In thousands of GEL	Dec-17	Dec-16
Loans and advances to customers		
Consumer	2,128,658	1,838,895
Mortgage	2,069,728	1,808,434
Pawn	34,767	33,247
Retail	4,233,153	3,680,576
Corporate	2,475,392	2,062,229
MSME	1,844,672	1,615,920
Total loans and advances to customers (Gross)	**8,553,217**	**7,358,725**
Less: Provision for Loan Impairment	-227,864	-225,023
Total loans and advances to customers (Net)	**8,325,353**	**7,133,702**

Customer accounts		
Retail	4,378,265	3,747,775
Corporate	2,410,862	1,875,576
MSME	1,027,690	831,598
Total customer accounts	**7,816,817**	**6,454,949**

Retail banking

As of 31 December 2017, retail loans stood at GEL 4,233.2 million (or GEL 3,518.2 million without Bank Republic estimated contribution effect), up by GEL 552.6 million, or 15.0%, YoY. The main drivers were GEL 289.8 million, or 15.8%, increase in consumer loans, and a GEL 261.3 million, or 14.4% rise in mortgage loans. As of 31 December 2017, TBC Bank's retail loans accounted for 40.2% market share of total individual loans. As of 31 December 2017, foreign currency loans represented 49.3% of the total retail loan portfolio.

In the reporting period, retail deposits increased to GEL 4,378.3 million (or to GEL 4,066.3 million without Bank Republic estimated contributed effect), up by GEL 630.1 million or 16.8% YoY. Retail deposits accounted for 41.3% market share of total individual deposits. The increase in retail deposits was attributable to a GEL 355.2 million, or 21.9%, rise in current deposits, and a GEL 274.9 million, or 12.9% increase in term deposits YoY. Term deposits accounted for 54.9% of the total retail deposit portfolio as of 31 December 2017, while foreign currency deposits represented 83.8% of the total retail deposit portfolio, compared to 86.4% as of December 2016.

In FY 2017, retail loan yields and deposit rates stood at 14.0% and 3.1% respectively, and the segment's cost of risk on loans was 2.8%. The retail segment contributed 29.7%, or GEL 107.0 million, to the TBC's total net income in the respective period.

Corporate banking

As of 31 December 2017, corporate loans amounted to GEL 2,475.4 million (or GEL 2,230.2 million excluding Bank Republic estimated effect), up by GEL 413.2 million or 20.0% YoY. Foreign currency loans accounted for 74.6% of the total corporate loan portfolio. The market share for legal entities increased by 2.3% YoY to 36.0% mainly due to newly acquired blue chip customers.

As of the same date, corporate deposits totalled GEL 2,410.9 million (or GEL 2,297.5 million without the Bank Republic effect), up by GEL 535.7 million or 28.6% YoY. Foreign currency corporate deposits represented 49.8% of the total corporate deposit portfolio. Market share stood at 37.9%.

In FY 2017, corporate loan yields and deposit rates stood at 9.5% and 5.2%, respectively. In the same period, the cost of risk on loans was -1.3%. Negative CoR in 2017 is driven by good performance of the book. In terms of profitability, the corporate segment's net profit reached GEL 154.2 million, or 42.9% of the Bank's total net income.

MSME banking

As of 31 December 2017, MSME loans amounted to GEL 1,844.7 million (GEL 1,708.7 million excluding Bank Republic estimated loan portfolio), up by GEL 228.8 million, or 14.2% YoY. Foreign currency loans accounted for 63.8% of the total MSME portfolio.

As of the same date, MSME deposits stood at GEL 1,027.7 million (GEL 964.2 million excluding Bank Republic estimated deposit portfolio), up by GEL 196.1 million or 23.6% YoY. Foreign currency MSME deposits represented 53.7% of the total MSME deposit portfolio.

In FY 2017, MSME loan yields and deposit rates stood at 10.9% and 1.3% respectively, while the cost of risk on loans was 0.8%. In terms of profitability, net profit for the MSME segment amounted to GEL 81.8 million, or 22.7% of TBC's total net income.Consolidated Financial Statements of TBC Bank Group PLC

Consolidated Balance Sheet

In thousands of GEL	Dec-17	Dec-16
Cash and cash equivalents	1,431,477	945,180
Due from other banks	39,643	24,725
Mandatory cash balances with the National Bank of Georgia	1,033,818	990,642
Loans and advances to customers	8,325,353	7,133,702
Investment securities available for sale	657,938	430,703
Bonds carried at amortised cost	449,538	372,956
Investments in finance leases	143,836	95,031
Investment properties	79,232	95,615
Current income tax prepayment	19,084	7,430
Deferred income tax asset	2,855	3,511
Other financial assets	146,144	94,627
Other assets	156,651	171,263
Premises and equipment	366,913	314,032
Intangible assets	83,492	60,957
Goodwill	28,658	28,658
Investments in associates	1,278	–
TOTAL ASSETS	**12,965,910**	**10,769,032**
LIABILITIES		
Due to credit institutions	2,620,714	2,197,577
Customer accounts	7,816,817	6,454,949
Other financial liabilities	91,753	50,998
Current income tax liability	447	2,577
Debt securities in issue	20,695	23,508
Deferred income tax liability	602	5,646
Provisions for liabilities and charges	13,200	16,026
Other liabilities	84,440	66,739
Subordinated debt	426,788	368,381
TOTAL LIABILITIES	**11,075,456**	**9,186,401**
EQUITY		
Share capital	1,605	1,581
Share premium	714,651	677,211
Retained earnings	1,232,865	955,173
Group reorganisation reserve	-162,166	-162,166
Share-based payment reserve	9,828	23,327
Revaluation reserve for premises	70,045	70,460
Revaluation reserve for available-for-sale securities	1,730	-3,681
Cumulative currency translation reserve	-7,359	-7,538
Net assets attributable to owners	**1,861,199**	**1,554,367**
Non-controlling interest	29,255	28,264
TOTAL EQUITY	**1,890,454**	**1,582,631**
TOTAL LIABILITIES AND EQUITY	**12,965,910**	**10,769,032**

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of GEL	2017	2016
Interest income	1,033,939	766,426
Interest expense	-429,924	-275,973
Net interest income	**604,015**	**490,453**
Fee and commission income	193,944	142,800
Fee and commission expense	-67,983	-52,532

Net fee and commission income	**125,961**	**90,268**
Net insurance premiums earned	12,633	1,222
Net insurance claims incurred	-5,860	-966
Insurance profit	**6,773**	**256**
Net gains from trading in foreign currencies	87,099	70,269
Net gains /(losses) from foreign exchange translation	4,374	-2,507
Net losses from derivative financial instruments	-36	-206
Net gains from disposal of investment securities available for sale	93	9,293
Other operating income	31,797	23,236
Share of profit of associates	909	-
Other operating non-interest income	**124,236**	**100,085**
Provision for loan impairment	-93,823	-49,202
Provision for impairment of investments in finance lease	-492	-558
Provision for performance guarantees and credit-related commitments	-153	-771
Provision for impairment of other financial assets	-12,439	-2,853
Impairment of investment securities available for sale	–	–11
Operating income after provisions for impairment	**754,078**	**627,667**
Staff costs	-203,100	-172,221
Depreciation and amortisation	-37,265	-28,082
Recovery of provision/ (provision for) liabilities and charges	2,495	-2,210
Administrative and other operating expenses	-121,530	-109,475
Operating expenses	**-359,400**	**-311,988**
Profit before tax	**394,678**	**315,679**
Income tax expense	-34,750	-17,421
Profit for the year	**359,928**	**298,258**
Other Comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available for sale investments	5,489	522
Gains less losses recycled to profit or loss upon disposal	–	-11,611
Exchange differences on translation to presentation currency	181	-948
Income tax recorded directly in other comprehensive income	–	1,649
Items that will not be reclassified to profit or loss:		
Income tax recorded directly in other comprehensive income	-422	10,928
Other comprehensive income for the year	**5,248**	**540**
Total comprehensive income for the year	**365,176**	**298,798**
Profit is attributable to:		
- Owners of the Bank	354,410	299,145
- Non-controlling interest	5,518	-887
Profit for the year	**359,928**	**298,258**
Total comprehensive income is attributable to:		
- Owners of the Bank	359,585	299,685
- Non-controlling interest	5,591	-887
Total comprehensive income for the year	**365,176**	**298,798**

Consolidated Statements of Cash Flows

In thousands of GEL	2017	2016
Cash flows from (used in) operating activities		
Interest received	1,000,571	735,705
Interest paid	-424,105	-273,795
Fees and commissions received	195,285	144,247
Fees and commissions paid	-68,036	-52,154
Insurance premium received	23,518	1,591
Insurance claims paid	-9,127	-703
Income received from trading in foreign currencies	87,099	70,411
Other operating income received	8,992	8,411
Staff costs paid	-187,520	-148,656
Administrative and other operating expenses paid	-112,270	-104,077
Income tax paid	-53,916	-34,279
Cash flows from operating activities before changes in operating assets and liabilities	**460,491**	**346,701**
Net change in operating assets		
Due from other banks and mandatory cash balances with the National Bank of Georgia	-98,586	-448,582
Loans and advances to customers	-1,330,105	-1,219,501
Investment in finance lease	-49,297	-11,687
Other financial assets	-38,064	-22,965
Other assets	73,814	-843
Net change in operating liabilities		
Due to other banks	-228,486	265,679
Customer accounts	1,329,071	1,150,146
Other financial liabilities	18,263	5,724
Other liabilities and provision for liabilities and charges	3,487	332
Net cash flows from operating activities	**140,588**	**65,004**
Cash flows used in (from) investing activities		
Acquisition of investment securities available for sale	-560,226	-143,980
Proceeds from disposal of investment securities available for sale	-	11,868
Proceeds from redemption at maturity of investment securities available for sale	345,748	166,871
Acquisition of subsidiaries, net of cash acquired	-273	-91,404
Acquisition of bonds carried at amortised cost	-307,248	-304,109
Proceeds from redemption of bonds carried at amortised cost	242,380	314,231
Acquisition of premises, equipment and intangible assets	-114,383	-50,689
Proceeds from disposal of premises, equipment and intangible assets	1,932	1,273
Proceeds from disposal of investment property	19,082	7,822
Net cash flows used in investing activities	**-372,988**	**-88,117**
Cash flows from (used in) financing activities		
Proceeds from other borrowed funds	1,461,191	903,502
Redemption of other borrowed funds	-800,333	-666,156
Proceeds from subordinated debt	119,859	136,817
Redemption of subordinated debt	-59,671	-90,416
Proceeds from debt securities in issue	–	4,354
Redemption of debt securities in issue	-2,123	-4,636
Dividends paid	-67,927	-54,560
Acquisition of non-controlling interest in subsidiary	–	-3,495
Issue of ordinary shares	29	–
Net cash from financing activities	**651,025**	**225,410**
Effect of exchange rate changes on cash and cash equivalents	67,672	22,536
Net increase in cash and cash equivalents	**486,297**	**224,833**
Cash and cash equivalents at the beginning of the year	**945,180**	**720,347**
Cash and cash equivalents at the end of the year	**1,431,477**	**945,180**

Key ratios

Average balances

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

Key ratios

Ratios (based on monthly averages, where applicable)	2017	2016
Underlying ROE[1]	21.4%	20.6%
Reported ROE[2]	20.9%	22.4%
Underlying ROA[3]	3.2%	3.6%
Reported ROA[4]	3.1%	3.9%
Underlying Cost to Income[5]	40.5%	42.9%
Reported Cost to Income[6]	41.7%	45.8%
Cost of Risk[7]	1.2%	1.0%
NIM[8]	6.5%	7.8%
Risk Adjusted NIM[9]	5.1%	6.4%
Loan Yields[10]	12.1%	13.4%
Risk Adjusted Loan Yields[11]	10.7%	12.1%
Deposit rates[12]	3.4%	3.3%
Yields on interest Earning Assets[13]	11.1%	12.2%
Cost of Funding[14]	4.5%	4.5%
Spread[15]	6.6%	7.8%
PAR 90 to Gross Loans[16]	1.4%	1.3%
NPLs to Gross Loans[17]	3.3%	3.5%
NPLs coverage per IAS 39[18]	81.8%	88.4%
NPLs coverage with collateral per IAS 39[19]	186.5%	222.5%
NPLs coverage per IFRS 9[20]	104.7%	N/A
NPLs coverage with collateral per IFRS 9[21]	209.4%	N/A
Provision Level to Gross Loans[22]	2.7%	3.1%
Related Party Loans to Gross Loans[23]	0.1%	0.1%
Top 10 Borrowers to Total Portfolio[24]	8.2%	7.6%
Top 20 Borrowers to Total Portfolio[25]	12.4%	11.3%
Net Loans to Deposits plus IFI Funding[26]	92.5%	93.4%
Net Stable Funding Ratio[27]	124.4%	108.4%
Liquidity Coverage Ratio[28]	113%	N/A
Leverage[29]	6.9x	6.8x
Regulatory Tier 1 CAR (Basel III)[30]	13.4%	N/A
Regulatory Total CAR (Basel III)[31]	17.5%	N/A
Regulatory Tier 1 CAR (Basel II/III)[32]	10.3%*	10.4%
Regulatory Total CAR (Basel II/III)[33]	13.5%*	14.2%
Dividend Pay-out ratio[34]	25.4%	25.2%

* Estimated Basel II/III ratios as of 31 December 2017

Ratio definitions

1. Underlying return on average total equity (ROE) equals underlying net income attributable to owners divided by monthly average of total shareholders 'equity attributable to the PLC's equity holders for the same period adjusted for the respective one-off items; Annualised where applicable.
2. Return on average total equity (ROE) equals net income attributable to owners divided by monthly average of total shareholders 'equity attributable to the PLC's equity holders for the same period; Annualised where applicable.
3. Underlying return on average total assets (ROA) equals underlying net income of the period divided by monthly average total assets for the same period. Annualised where applicable.
4. Return on average total assets (ROA) equals net income of the period divided by monthly average total assets for the same period. Annualised where applicable.
5. Underlying cost to income ratio equals total underlying operating expenses for the period divided by the total underlying revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
6. Cost to income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
7. Cost of risk equals provision for loan impairment divided by monthly average gross loans and advances to customers. Annualised where applicable.
8. 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, amount 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.
9. Risk Adjusted Net interest margin is NIM minus cost of risk without one-offs and currency effect.
10. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers. Annualised where applicable.
11. Risk Adjusted Loan yield is loan yield minus cost of risk without one-offs and currency effect.
12. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits. Annualised where applicable.
13. Yields on interest earning assets equal total interest income divided by monthly average interest earning assets. Annualised where applicable.
14. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities. Annualised where applicable.
15. Spread equals difference between yields on interest-earning assets (including but not limited to yields on loans, securities and due from banks) and cost of funding (including but not limited to cost of deposits, cost on borrowings and due to banks).
16. PAR 90 to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
17. 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.
18. NPLs coverage ratio equals total loan loss provision calculated per IAS 39 divided by the NPL loans.
19. NPLs coverage with collateral ratio equals loan loss provision calculated per IAS 39 plus total collateral amount of NPL loans (excluding third-party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
20. NPLs coverage ratio equals total loan loss provision calculated per IFRS 9 divided by the NPL loans.
21. NPLs coverage with collateral ratio equals loan loss provision calculated per IFRS 9 plus total collateral amount of NPL loans (excluding third-party guarantees) discounted at 30-50% depending on segment type divided by the NPL loans.
22. Provision level to gross loans equals loan loss provision divided by the gross loan portfolio for the same period.
23. Related party loans to total loans equals related party loans divided by the gross loan portfolio.
24. Top 10 borrowers to total portfolio equals total loan amount of top 10 borrowers divided by the gross loan portfolio.
25. Top 20 borrowers to total portfolio equals total loan amount of top 20 borrowers divided by the gross loan portfolio.
26. Net loans to deposits plus IFI funding ratio equals net loans divided by total deposits plus borrowings received from international financial institutions.
27. Net stable funding ratio equals available amount of stable funding divided by required amount of stable funding as defined in Basel III. NSFR ratio for before Q2 2017 is calculated per updated internal methodology in line with Basel 2014 guidelines.
28. Liquidity coverage ratio equals high-quality liquid assets divided by total net cash outflow amount as defined by NBG.
29. Leverage equals total assets to total equity.
30. Regulatory Tier 1 CAR equals tier I capital divided by total risk-weighted assets, both calculated in accordance with the Pillar 1 requirements of NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
31. Regulatory Total CAR equals total capital divided by total risk-weighted assets, both calculated in accordance with the Pillar 1 requirements of NBG Basel III standards. The reporting started from the end of 2017. Calculations are made for TBC Bank stand-alone, based on local standards.
32. Regulatory Tier 1 CAR equals Tier I Capital divided by total risk-weighted assets, both calculated in accordance with the NBG Basel II/III requirements.
33. Regulatory Total CAR equals total capital divided by total risk-weighted assets, both calculated in accordance with the NBG Basel II/III requirements
34. Dividend pay-out ratio for 2017 is based on 2016 performance. Dividend pay-out ratio for 2016 is based on 2015 performance.

Exchange rates

To calculate the QoQ growth of Balance Sheet items without the currency exchange rate effect, we used USD/GEL exchange rate of 2.4767 as of 30 September 2017. For calculations of the YoY growth without the currency exchange rate effect, we used USD/GEL exchange rate of 2.6468 as of 31 December 2016. The USD/GEL exchange rate as of 31 December 2017 equalled 2.5922. For P&L items growth calculations without currency effect, we used the average USD/GEL exchange rate for the following periods: Q4 2017 of 2.5933, Q3 2017 of 2.4207, Q4 2016 of 2.4958.

Annex 1

In thousands of GEL	2016
Reported net interest income	**490,453**
One-off interest income related to large corporate borrowers	*13,814*
One-off interest expense related to prepayment of subordinated loans	*-2,457*
Underlying net interest income	**479,096**
Reported net fee and commission income	**90,268**
Reported gross insurance profit	**256**
Reported other operating income	**100,085**
One-off gain on sale of investment securities	*8,795*
Underlying other operating income	**91,290**
Reported operating income	**681,062**
Underlying operating income	**660,910**
Reported total provision expenses	**-53,395**
One-off recovery of previously written-off principal	*26,217*
One-off currency effect on provisions	*-9,595*
Underlying total provision expenses	**-70,017**
Reported operating income after provisions	**627,667**
Underlying operating income after provisions	**590,893**
Reported operating expenses	**-311,988**
One-off costs related to premium listing	*-16,227*
One-off costs related to Bank Republic integration (consulting costs)	*-8,000*
One-off costs related to impairment of intangible assets of Bank Republic	*-2,025*
One-off costs related to staff redundancy provision related to Bank Republic acquisition	*-2,210*
Underlying operating expenses	**-283,536**
Reported profit before tax	**315,679**
Underlying profit before tax	**307,367**
Reported income tax	**-17,421**
One-off tax credit	*17,875*
Effect on tax of one-off items (sum of one-off items is multiplied by income tax rate)	*-1,247*
Underlying income tax	**-34,049**
Reported net profit	**298,258**
Underlying net profit	**273,318**
Non-controlling interest (NCI)	-887
Reported net profit less NCI	**299,145**
Underlying net profit less NCI	**274,205**

In thousands of GEL	2017
Reported net interest income	**604,015**
Reported net fee and commission income	**125,961**
Reported gross insurance profit	**6,773**
Reported other operating income	**124,236**
Reported operating income	**860,985**
Reported total provision expenses	**-106,907**
Reported operating income after provisions	**754,078**
Reported operating expenses	**-359,400**
One-off costs related to Bank Republic integration (consulting costs)	*-10,925*
Underlying operating expenses	**-348,475**
Reported profit before tax	**394,678**
Underlying profit before tax	**405,603**
Reported income tax	**-34,750**
Effect on tax of one-off items	*1,639*
Underlying income tax	**-36,389**
Reported net profit	**359,928**
Underlying net profit	**369,214**
Reported non-controlling interest (NCI)	**5,518**
Underlying non-controlling interest (NCI)	**5,638**
Reported net profit less NCI	**354,410**
Underlying net profit less NCI	**363,576**

	2017	2016
Underlying ROE	21.4%	20.6%
Underlying ROA	3.2%	3.6%
Underlying cost to income	40.5%	42.9%
Underlying NIM	6.5%	7.6%

Annex 2

Please note: Bank Republic figures after the merger on 8 May 2017 are based on internal estimates as described below.

Bank Republic contribution assumptions:

To make the YoY analyses more comparable, the Bank has segregated the Bank Republic contribution after the merger on 8 May 2017, which is based on direct income and cost attribution calculation and, where not applicable, based on established allocation rules, appropriate management assumptions, and estimates.

The management has estimated the Bank Republic contribution effect within the Group's financial results based on the following rationale:

- Loan and deposit portfolio as well as the interest income and expense from these portfolios have been calculated for all Bank Republic's existing clients with outstanding exposure for the reporting period, as well as for all new clients attracted through the former branches of Bank Republic.
- For the remaining items of B/S and P&L where the direct attribution is not practical, the management has used the allocation based on Bank Republic loan and deposit books contribution to each operating segment.

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Reported figures for TBC and BR

In thousands of GEL	2017	2016
Interest income (TBC)	870,689	728,663
Interest income (BR)	163,250	37,763
Interest income (TBC+BR)	**1,033,939**	**766,426**
Interest expense (TBC)	-377,404	-262,087
Interest expense (BR)	-52,520	-13,886
Interest expense (TBC+BR)	**-429,924**	**-275,973**
Net interest income (TBC)	493,285	466,576
Net interest income (BR)	110,730	23,877
Net interest income (TBC+BR)	**604,015**	**490,453**
Net fee and commission Income (TBC)	119,050	88,076
Net fee and commission Income (BR)	6,911	2,192
Net fee and commission income (TBC+BR)	**125,961**	**90,268**
Other operating non-interest income (TBC)	108,242	88,358
Other operating non-interest income (BR)	22,767	11,983
Other operating non-interest income (TBC+BR)	**131,009**	**100,341**
Operating income (TBC)	720,577	643,010
Operating income (BR)	140,408	38,052
Operating income (TBC+BR)	**860,985**	**681,062**
Total provisions (TBC)	N/A	-41,597
Total provisions (BR)	N/A	-11,798
Total provisions (TBC+BR)	**-106,907**	**-53,395**
Operating expenses (TBC)	-298,625	-296,686
Staff costs	-167,925	-164,604
Depreciation and amortisation	-32,563	-28,141
Provision for liabilities and charges	2,495	-2,210
Administrative and other operating expenses	-100,632	-101,731
Operating expenses (BR)	-60,775	-15,302
Staff costs	-35,175	-7,617
Depreciation and amortisation	-4,702	59
Provision for liabilities and charges	–	-
Administrative and other operating expenses	-20,898	-7,743
Operating Expenses (TBC+BR)	**-359,400**	**-311,988**
Staff costs	-203,100	-172,221
Depreciation and amortisation	-37,265	-28,082
Provision for liabilities and charges	2,495	-2,210
Administrative and other operating expenses	-121,530	-109,474
Income tax expense (TBC)	N/A	-17,146
Income tax expense (BR)	N/A	-275
Income tax expense (TBC+BR)	**-34,750**	**-17,421**
Net profit (TBC)	N/A	287,581
Net profit (BR)	N/A	10,677
Net profit (TBC+BR)	**359,928**	**298,258**

Underlying figures for TBC and BR

In thousands of GEL	2017	2016
Interest income (TBC)	870,689	714,849
Interest income (BR)	163,250	37,763
Interest income (TBC+BR)	**1,033,939**	**752,612**
Interest expense (TBC)	-377,404	-259,630
Interest expense (BR)	-52,520	-13,886
Interest expense (TBC+BR)	**-429,924**	**-273,516**
Net interest income (TBC)	493,285	455,219
Net interest income (BR)	110,730	23,877
Net interest income (TBC+BR)	**604,015**	**479,096**
Net fee and commission income (TBC)	119,050	88,076
Net fee and commission income (BR)	6,911	2,192
Net fee and commission income (TBC+BR)	**125,961**	**90,268**
Other operating non-interest income (TBC)	108,242	79,563
Other operating non-interest income (BR)	22,767	11,983
Other operating non-interest income (TBC+BR)	**131,009**	**91,546**
Operating income (TBC)	720,577	622,858
Operating income (BR)	140,408	38,052
Operating income (TBC+BR)	**860,985**	**660,910**
Total provisions (TBC)	N/A	-58,219
Total provisions (BR)	N/A	-11,798
Total provisions (TBC+BR)	**-106,907**	**-70,017**
Operating expenses (TBC)	-287,701	-270,249
Staff costs	-164,852	-164,604
Depreciation and amortisation	-32,563	-28,141
Provision for liabilities and charges	2,495	–
Administrative and other operating expenses	-92,781	-77,504
Operating expenses (BR)	-60,775	-13,277
Staff costs	-35,175	-7,617
Depreciation and amortisation	-4,702	58
Provision for liabilities and charges	–	–
Administrative and other operating expenses	-20,897	-5,719
Operating expenses (TBC+BR)	**-348,475**	**-283,526**
Staff costs	-200,027	-172,221
Depreciation and amortisation	-37,265	-28,082
Provision for liabilities and charges	2,495	–
Administrative and other operating expenses	-113,678	-83,223
Income tax expense (TBC)	N/A	-33,470
Income tax expense (BR)	N/A	-579
Income tax expense (TBC+BR)	**-36,389**	**-34,049**
Net income (TBC)	N/A	260,920
Net profit (BR)	N/A	12,398
Net profit (TBC+BR)	**369,214**	**273,318**

Loan and deposit portfolios reconciliation

Loan portfolio

In thousands of GEL	2017	2016
Total gross loans (TBC)	7,457,060	5,911,152
Retail	3,518,195	3,240,585
Corporate	2,230,158	1,789,309
MSME	1,708,707	881,258
Total gross loans (BR)	1,096,157	1,447,573
Retail	714,958	439,991
Corporate	245,234	272,920
MSME	135,965	734,662
Total gross loans (TBC+BR)	**8,553,217**	**7,358,725**
Retail	4,233,153	3,680,576
Corporate	2,475,392	2,062,229
MSME	1,844,672	1,615,920

Deposit portfolio

In thousands of GEL	2017	2016
Total deposits (TBC)	7,327,962	5,641,123
Retail	4,066,282	3,418,681
Corporate	2,297,455	1,468,771
MSME	964,225	753,671
Total deposits (BR)	488,855	813,826
Retail	311,983	329,470
Corporate	113,407	406,429
MSME	63,465	77,927
Total deposits (TBC+BR)	**7,816,817**	**6,454,949**
Retail	4,378,265	3,747,775
Corporate	2,410,862	1,875,576
MSME	1,027,690	831,598

Chairman's governance overview

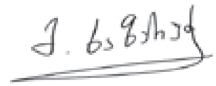
Dear shareholders,

I am pleased to present our corporate governance report for 2017. My role as Chairman is to lead the Board and ensure that it works effectively in the pursuit of sustainable, long-term shareholder value. We believe that an effective governance structure and strong oversight of the Company's business by the Board is vital in providing necessary checks and balances, thus supporting better decision-making and accountability in turn. The effective delivery of long-term, sustainable value for shareholders requires an effective Board.

We understand that the Board requires the right balance of skills, country-specific knowledge, and diversity of experience and perspectives to achieve maximum effectiveness. As Chairman, I ensure that there is constructive debate in the boardroom in order to create and maintain an environment where the Board remains open to different viewpoints and ideas. Our Board is comprised of nine members, of which five (namely, Nikoloz Enukidze (SID), Stefano Marsaglia, Nicholas Haag, Eric Rajendra and Stephan Wilcke) are considered independent non-executive Directors. The Board views each of these non-executive Directors as being independent of management judgement and character, and free from any business or other relationship that could materially interfere with their exercise of independent judgement. In accordance with the UK Corporate Governance Code (the "Code"), all Directors are subject to annual re-election by shareholders at our Annual General Meeting.

As previously announced, two non-executive Directors, Stefano Marsaglia and Stephan Wilcke will be leaving TBC Bank and stepping down from the Board as and when suitable replacements are found during 2018. I would like to extend the Board's thanks to both Stefano and Stephan for their important contributions to TBC Bank and wish them every success in the future. Both non-executive Directors will remain in post pending the appointment of successors, which may or may not have occurred by the time of the Annual General Meeting. Stefano and Stephan will, therefore, only be re-elected if they remain Directors at the opening of the Annual General Meeting.

The Board is responsible for promoting the highest standards of corporate governance within the Group and we are committed to further developing and strengthening our governance structure to achieve the highest level of effectiveness.



Mamuka Khazaradze
Chairman
28 March 2018

CORPORATE GOVERNANCE FRAMEWORK

The Group's corporate governance framework provides shareholders with an explanation of how the Company has applied the main principles of the Code as relevant to the Company in 2017.

Compliance statement

As a premium-listed company on the LSE, the Company complies with the Code. At the date of this report, the Company has applied the principles and complied with the provisions of the Code in full.

The Code and associated guidance is published by the Financial Reporting Council and is available at www.frc.org.uk.

The Board

The Board is collectively responsible for promoting the Group's long-term success and the delivery of sustainable value to shareholders by establishing and overseeing the strategic direction of the Company and its business. The Board is led by the Chairman and provides challenge, oversight and advice to ensure the Company's success. The Board is the decision-making body in relation to all matters that are significant to the Group. There is a formal schedule of matters reserved for the Board's approval in place to ensure that the Board retains control over key decisions. The matters exclusively reserved for the Board's approval include, among other things, approval of the Group's strategy, long-term objectives, risk appetite, the annual operating and capital expenditure budgets, changes to the Group's capital, share buy-backs, major acquisitions and/or mergers, annual reports and accounts. The full document is available on our website at www.tbcbankgroup.com.

Board Committees

The Board places significant reliance on its committees (the "Committees") and delegates a broad range of responsibilities to them, while maintaining the effective links between Committees and the Board where required. The Board has four Committees: (i) the Audit Committee; (ii) the Remuneration Committee; (iii) the Corporate Governance and Nomination Committee; and (iv) the Risks, Ethics and Compliance Committee. The chairs of each Committee report matters of significance to the Board after each meeting. The detailed roles and responsibilities of each committee are set out in its terms of reference, which can be found on the website at www.tbcbankgroup.com.

Committee membership

	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risks, Ethics and Compliance Committee
Badri Japaridze			Member	
Eric J. Rajendra	Member	Member	Chairperson	Member
Nikoloz Enukidze	Member	Member	Member	Chairperson
Nicholas Dominic Haag	Chairperson	Member		Member
Stefano Marsaglia	Member	Chairperson		Member
Stephan Wilcke	Member		Member	Member

Chairperson Member

Division of responsibilities

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

Board composition

The Board currently comprises a Chairman, five non-executive Directors and two executive Directors. In accordance with the Code, the majority of the Board are independent non-executive Directors. Non-executive Directors constructively challenge and scrutinise the performance of management and help develop proposals on strategy.

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

Provision A.3.1 requires that the Chairman on appointment should be independent. Mamuka Khazaradze, who is the Chairman, is, for the purposes of the Code, not considered to have been independent on his appointment (in 2016) as the Chairman due to his role as founder of the Group. The Board is unanimously of the opinion that Mr Khazaradze is an extremely valuable asset to the Company, bringing a wealth of experience in Georgia's banking sector, and that it is, therefore, in the Company's best interests that he should continue as the Chairman of the Company.

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

Details of the individual Directors and their biographies are set out on pages 114-117.

Time commitment

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

Board and Committee meeting attendance

In 2017, the Company held three scheduled and eleven additional meetings. In addition, the Chairman and the Chief Executive Officer maintain frequent contact (in person or otherwise) with each other and the other Board members throughout the year outside of the formal meetings.

In addition, the affairs of the Company's main subsidiary, JSC TBC Bank (the "Bank"), are supervised by a supervisory board (the "Supervisory Board") with the same composition as the Board and equivalent committees of the Supervisory Board. There are, therefore, in practice two equivalent supervisory bodies within the Group represented by the Board and the Supervisory Board, which are separate but interconnected with committees that have common membership. However, we carefully balance the work of the Board, the Supervisory Board and their respective committees, dividing functions according to whether they are supervising the topics that impact on the Company or solely the Bank.

Attendance of meetings of the Board and its Committees in 2017 are set out below:

Board Attendance	Board meetings eligible to attend/ attended	Audit Committee meetings eligible to attend/attended	Remuneration Committee meetings eligible to attend/attended	Corporate Governance and Nomination Committee meetings eligible to attend/attended	Risks, Ethics and Compliance Committee meetings eligible to attend/attended
Vakhtang Butskhrikidze (Chief Executive Officer)	14/14				
Giorgi Shagidze (Chief Financial Officer))[1]	14/13				
Non-executive Directors					
Mamuka Khazaradze (Chairman)[2]	14/13				
Badri Japaridze	14/14			5/5	
Eric J. Rajendra	14/14	8/8	4/4	5/5	4/4
Nikoloz Enukidze	14/14	8/8	4/4	5/5	4/4
Nicholas Dominic Haag	14/14	8/8	4/4		4/4
Stefano Marsaglia[3]	14/13	8/7	4/3		4/2
Stephan Wilcke	14/14	8/8		5/5	4/4

1. Mr Shagidze was unable to join one Board meeting conference call held on 4 July 2017 due to delay of his business related flight, however, he had provided his opinion on the matters under consideration via email correspondence in advance of the meeting, as soon as he became aware about the delay.
2. Mr Khazaradze was unable to attend one Board meeting held on 22 March 2017 due to a prior business-related travel commitment; however, he discussed all matters on the agenda with the senior independent non-executive Director and the CEO and provided feedback on materials, as required, in advance of the meetings.
3. Mr Marsaglia was unable to join one Board meeting and four committee meetings due to personal reasons.

Attendance of meetings of the Supervisory Board and its committees in 2017 are set out below:

Supervisory Board Attendance	Supervisory Board meetings eligible to attend/attended	Audit Committee meetings eligible to attend/attended	Remuneration Committee meetings eligible to attend/attended	Corporate Governance and Nomination Committee meetings eligible to attend/attended	Risks, Ethics and Compliance Committee meetings eligible to attend/attended
Mamuka Khazaradze (Chairman)	55/55				
Vakhtang Butskhrikidze (Chief Executive Officer)	75/75				
Giorgi Shagidze (Chief Financial Officer)	77/77				
Badri Japaridze	58/58			4/4	
Eric J. Rajendra	77/77	8/8	7/7	4/4	34/34
Nikoloz Enukidze	77/77	8/8	7/7	4/4	34/34
Nicholas Dominic Haag	77/77	8/8	7/7		34/34
Stefano Marsaglia	77/75	8/7	7/6		34/32
Stephan Wilcke	77/77	8/8		4/4	34/34

Diversity policy

We recognise the importance of ensuring diversity and see significant benefit to our business in having a Board and management team that is drawn from a diverse range of backgrounds. This brings the required expertise, cultural diversity and different perspectives to the Board discussions and helps to improve the quality of decision-making.

The Board is mindful that it does not currently include any female members and, although the Board is satisfied with the current level of diversity, relevant skills and expertise of its members, it intends to ensure that the next appointments to the Board address this concern and complement the Board's diversity in terms of ethnicity, cultures, gender, age levels, relevant skills and work experience. The Board notes the number of talented women in key positions reporting to the CEO and other management board members and, going forward, the Board intends to increase diversity by identifying qualified female candidates for appointment to the Board and senior management teams.

Induction and training

A formal induction is arranged for newly appointed Directors based on the individual's need, skills and experience. Typically, these included a series of meetings with the Chairman and other Directors and senior executives, as well as local site visits to provide familiarity with the business. During the year, the Company did not have any new appointments to the Board or its Committees.

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

Members of the Board are required to complete a self-assessment process at the end of the year, which is considered as part of the Board's annual effectiveness evaluation.

Annual Board effectiveness evaluation

The Board and Committees continually strive to improve their effectiveness and recognise that their annual evaluation process is an important tool in reaching that goal. Non–executive Directors' individual performance evaluations were undertaken by the Chairman, which involved a discussion about a Director's individual contribution, the time commitment that is required to continue to deliver the role effectively, and their training and development needs. The Chairman has confirmed that all non-executive Directors continue to perform effectively, contribute positively to the governance of the Group and are able to commit the time required for their role.

The Chairman's performance is evaluated by the independent non-executive Directors led by the senior independent Director. Executive Directors' individual performance evaluation is undertaken as part of the performance management process for all employees. The results are considered by the Remuneration Committee when determining pay awards each year.

Having assessed the overall findings of the effectiveness review, the Directors were satisfied that the Board, collectively, and its individual members operated effectively during 2017.

Following last year's evaluation, the Board discussed the previous suggestion to establish a strategy committee and unanimously decided that since all of the directors need to be engaged in setting the Group's strategy, this topic should be a focus for the full Board. Therefore, instead of establishing a new committee, the Board decided to add new meeting dates dedicated solely to the discussion of the Group's strategy. Furthermore, the Chairman defined several areas of focus to help maintain and improve its effectiveness in the following areas:

- Continuing to focus the Board's attention on the Company's strategic planning by dedicating specific meeting days on this topic.
- Further refining the quality of debate on strategic matters by increasing the length of meetings dedicated to this topic.

In addition, as required by the Code, the Company, in 2018, and going forward, once every three years will conduct an independent, externally facilitated self–assessment of the effectiveness of the Board, the Committees and individual Directors.

Directors' commitments

The Directors are required to disclose to the Board their external appointments or other significant commitments prior to their appointment. Our non-executive Directors hold external directorships or other external positions, but the Board believes they still have sufficient time to devote to their duties as a Director of the Company and believe that the other external directorships/positions held provide the Directors with valuable expertise that enhances their ability to act as a non-executive Director of the Company. No significant changes to the commitments of the Chairman or non-executive Directors were identified.

Re-election of Directors

As mentioned above, in accordance with the Code, all Directors are subject to annual re-election by shareholders at our Annual General Meeting. Biographical details of the Directors are included on pages 114 to 117.

As already announced, two non-executive Directors, Stefano Marsaglia and Stephan Wilcke will be stepping down from the Board but remain in post pending the appointment of successors, which may or may not have occurred by the time of the Annual General Meeting. Stefano and Stephan will, therefore, only be re-elected if they remain Directors at the opening of the Annual General Meeting.

Remuneration Committee

Information on the Remuneration Committee is included in the Directors' Remuneration Report on pages 126 to 147.

Engagement with shareholders

Effective communication with shareholders is one of the Board's highest priorities. The Chief Executive Officer and the Chief Financial Officer, together with the deputy Chairman and/or the Chairman, remain in regular contact with the Company's major shareholders. They hold regular investor calls and also conduct face-to-face meetings with investors visiting Georgia. Moreover, they participate in regular roadshows, as well as various investor conferences across numerous geographic locations to promote awareness and understanding of the Group's business. In addition, they take an active part in government events abroad aimed at increasing investor confidence in the economic stability of the country and its

sustainable development. The Bank's senior executive team and Directors are also involved in hosting an annual Capital Markets Day in London. Senior non-executive Director, Nikoloz Enukidze, together with the chairman of the Remuneration Committee met with large institutional shareholders to discuss remuneration matters in advance of the 2018 annual general meeting.
The Company has a dedicated investor relations website, which contains information on all disclosures made to the market, including results presentations and annual reports.

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

The Group maintains a permanent representative in London, who handles matters relating to investor relations and international media on behalf of the management team. In addition, the Chief Executive Officer, Chief Financial Officer, as well as Chairman, deputy Chairman and senior independent Director are available to discuss the concerns of shareholders at any point during the year.

Annual General Meeting

The last Annual General Meeting ("AGM") of the Company was held on 5 June 2017 at the offices of Baker McKenzie, 100 New Bridge Street, London. At the AGM, 74.93% of total voting rights were exercised by shareholders. All resolutions put to shareholders were passed, with votes in favour ranging from 92% to 99% of the votes cast.

The 2018 AGM is scheduled for 21 May 2018 in London. The Notice of AGM will be circulated to all the shareholders at least 21 working days before the AGM and it will also be made available on our IR website: www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our website at www.tbcbankgroup.com.

DIRECTORS' REPORT

The Directors present their Annual Report together with the audited consolidated accounts for the year ended 31 December 2017, which can be found on pages 157 to 254.

The Strategic Report on pages 2 to 103 was approved by the Board on 28 March 2018 and signed on its behalf by Vakhtang Butskhrikidze, the Company's Chief Executive Officer.

The Management Report together with the Strategic Report on page 2 to 103 form the Management Report for the purposes of DTR 4.1.5. R.

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

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The remaining disclosures required by Listing Rule 9.8.4 are not applicable to the Group.	
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Directors' conflicts of interests

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

Directors' indemnities and insurance

The Group maintains directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors and the company secretary. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Neither the indemnity nor insurance cover provides cover in the event that a Director, officer or company secretary is proved to have acted fraudulently or dishonestly. The above referred liability insurance and indemnities were in force during the course of the financial year ended 31 December 2017 and remain in force as at the date of this report.

Political donations

The Group did not make any political donations or incur any political expenditure during 2017.

Relationship agreement

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

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

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

Share capital

As of 28 March 2018, the Company's issued ordinary share capital comprised 53,550,507 ordinary shares with a nominal amount of £0.01 each and carrying one vote per ordinary share at general meetings of the Company. There were no shares held in treasury. The Company has in issue one class of ordinary shares, all of which are fully paid up, and it does not have preference shares in issue. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association. There are no voting restrictions on the issued ordinary shares and each ordinary share carries one vote. Details of the movements in share capital during the year are provided in Note 25 to the consolidated financial statements on page 209 of this Annual Report.

Profit and dividends

The profit for the financial year ending 31 December 2017 attributable to the Company's shareholders, after taxation, amounts to GEL 354,410,352. The Board intends to recommend GEL 1.64 per share, which will represent about 25% of the net profit, to be distributed to the Company's shareholders as dividend, payable in British Pounds Sterling at an official exchange rate of the National Bank of Georgia for 24 May 2018, which is subject to shareholders' approval at the 2018 AGM. If approved, the final dividend will be paid on 22 June 2018 to shareholders on the Register of Members at the close of business in the UK (ie 6pm London time) on 18 May 2018.

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

Powers of Directors

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

Special rights and transfer restrictions

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

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

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

Major shareholders

As at 31 December 2017, the Company had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the "DTRs") of the following interests in its total voting rights of 3% or more.

	As of 31 December 2017	
Shareholder	% of voting rights	# of voting rights
Mamuka Khazaradze	13.87%	7,343,936
Badri Japaridze	6.93%	3,669,878
Schroder Investment Management	9.53%	5,045,558
JPMorgan Asset Management	9.21%	4,877,138
European Bank for Reconstruction and Development	8.38%	4,436,406

Subsequent to year end, Dunross & Co Holding Ltd notified the Company in accordance with DTR5 of an indirect holding of 2,986,157 ordinary shares, representing 5.58% of the Company's issued share capital. Any future regulatory filings by shareholders will be available on the Group's website at www.tbcbankgroup.com and the LSE website at www.londonstockexchange.com.

Powers of Directors to issue and/or buy-back Company shares

The Companies Act 2006 and the Articles of Association determine the powers of Directors, in relation to share issues and buy-backs of shares in the Company. The Directors are authorised to issue and allot shares subject to approval at a general meeting of shareholders. Such authorities were granted to the Directors by shareholders at the general meeting of the Company, held on 5 June 2017, authorising the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal value of £163,702.40. The Company did not repurchase any of its ordinary shares during 2017.

This authority will apply until the conclusion of the 2018 AGM. Shareholders will be requested to renew these authorities at the 2018 AGM.

Appointment/replacement of Directors and amendment of Articles of Association

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

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

All of the Directors will stand for annual re-election at the Annual General Meeting. As already mentioned, two non-executive Directors, Stefano Marsaglia and Stephan Wilcke will be stepping down from the Board but remain in post pending the appointment of successors, which may or may not have occurred by the time of the Annual General Meeting. Stefano and Stephan will, therefore, only be re-elected if they remain Directors at the opening of the Annual General Meeting. Vakhtang Butskhrikidze and Giorgi Shagidze have service contracts with the Company, which came into effect on 10 August 2016 and will continue until terminated by either party to such contracts, giving the other not less than seven months written notice. They also have service contracts with the Bank, which both came into effect on 1 July 2015 and will continue until 31 December 2018. Further details on the Directors' service contracts are available in the Remuneration Report on pages 146 to 147. Biographical details and reasons for the reappointment for the Directors are given in the Notice of AGM.

Change of control

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

Employee disclosures

The Company's disclosures relating to the employee engagement and policies, as well as human rights, are included in the "Employee Matters" section on pages 75 to 78 of this Annual Report.

Disclosure information to the auditor

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

Going Concern statement

The Board has fully reviewed the available information pertaining to the principal risks, strategy, financial health, liquidity and solvency of the Group, and determined that the Group's business remains a going concern. The Directors have not identified any material uncertainties that could threaten the going concern assumption and have a reasonable expectation that the Company and the Group have adequate resources to remain operational and solvent for the foreseeable future (which is, for this purpose, a period of 12 months from the date of approval of these financial statements). Accordingly, the Group's consolidated financial statements are prepared in line with the going concern basis of accounting.

Viability statement

In compliance with the Code, the Directors have assessed the viability of the Group over a three-year period beginning on 1 January 2018. The Directors have determined the three-year period ending on 1 January 2021 to be appropriate, as it is consistent with the Group's planning cycle, covering, financial forecasts and strategic considerations of the Group. In considering the longer-term viability of the Group and its operations, the Directors have carried out a robust and thorough assessment of the Groups risk profile including all material existing and emerging risks that could cause the deviation of the group's financial condition, operations and prospects from the expectations over the period of assessment. In addition, the Directors analysed the Groups ability to meet all regulatory requirements.

The Directors' assessment considered:

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

The key areas of focus were:

(i) foreign exchange rate risk which is significant due to the high dollarisation of the Group's portfolio;
(ii) the risk of economic and political instability and its impact on the Groups future performance;
(iii) the risk of economic and political instability and its impact on the Groups future performance;
(iv) the risk of not meeting minimum regulatory and liquidity requirements. This particular topic was extensively analysed during the year due the recent regulatory changes introduced by the National Bank of Georgia. (Please refer to more details on page 125; and
(v) interest rate risk, in order to ensure that the Group will meet its profitability expectations.

A summary of all material risks the Group is exposed to and the mitigating actions taken by the Group are set out on pages 56 to 59.

- The Group's strategic plans

While reviewing and analysing the Group's strategic plans, the Directors assessed all potential risks related to the strategic plans the achievement of the Group's strategic objective and ensured that those risks were properly managed. The key focus areas were:
(i) the current business position and future prospects of the Group
(ii) capital, funding and liquidity profile of the Group
(iii) the use of stress tests to ensure that the Bank holds adequate economic capital to withstand the predefined stress scenarios. The stress scenarios incorporate external and internal macroeconomic shocks, specific idiosyncratic risks such as increased competition in the market and regulatory changes.
(iv) availability and efficient use of respective human and technical resources.

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

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

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

The review and analysis of the information presented in this Annual Report has enabled the Directors to confirm that they have a reasonable expectation of the Group's viability over the next three years up to 1 January 2021 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 2018 to 1 January 2021.

Directors' responsibilities

The following statement, which should be read together with the Auditor's report set out on pages 157 to 254, is required by the Companies Act 2006 (the "Act").

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

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

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

The Directors consider that, in preparing the financial statements they have used appropriate accounting policies, supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors also believe that the financial statements have been prepared on the going concern basis. Please see further the "Going concern statement" on page 111 of this Annual Report.

The Directors have a responsibility that the Company and the Group keep accounting records, which disclose with reasonable accuracy the financial position of the Company and the Group and enable the Directors to ensure that the accounts comply with the Act. The Directors are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. In addition, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the Directors, whose names and functions are listed on pages 114 to 117 of this Annual Report, confirms that to the best of their knowledge:

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

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

Mamuka Khazaradze
Chairman
28 March 2018

Mamuka Khazaradze

Chairman

Mamuka Khazaradze graduated from the Technical University of Georgia in 1988 and holds a diploma from Harvard Business School, 1998-2000. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1991 and 1992, respectively, he founded and became the president of TBC Bank. In 1995, he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of president until 2004, and between 1999 and 2002, he acted as vice chairman of the supervisory board of Microfinance Bank of Georgia. In 2004, Mr Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the president. Between 1997 and 2007, he was also vice president of the Olympic Committee of Georgia. Since 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 TBC Bank's Supervisory Board since its incorporation in 1992 and was appointed as a Chairman of the Board in May 2016.

Badri Japaridze

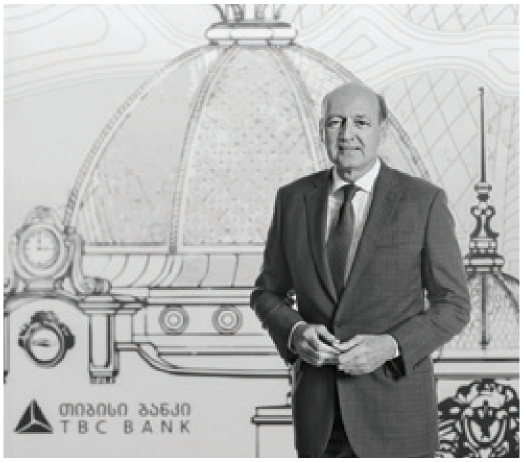
Deputy Chairman

Badri Japaridze graduated from the Faculty of Psychology at Tbilisi State University in 1982 and holds a postgraduate qualification from the Faculty of Psychology at Moscow State University. In addition, in 2001, he completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of parliament in Georgia. In 1992, he was appointed as head of the Foreign Relations department at TBC Bank and became the Bank's vice president in 1993. In 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 1995, Mr Japaridze was elected to TBC Bank's Supervisory Board and has been deputy chairman of it since 1996. In 2004, he was also elected as a member of the Board of Directors of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is a co-founder. In 2006, Mr Japaridze was elected to the supervisory board of the EU-Georgian 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. 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 at TBC Bank 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.



Stefano Marsaglia

Non-executive Director

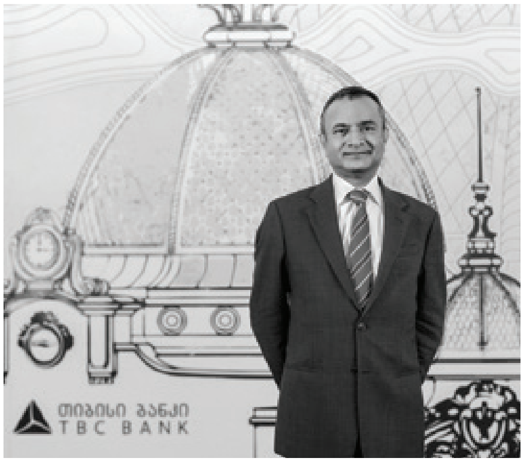
As previously announced Stefano will be leaving TBC Bank and stepping down from the Board as and when suitable replacement is found during 2018. Stefano will remain in post until his successor is appointed.

Stefano Marsaglia graduated from Turin University with a degree in economics and commerce in 1978. Mr Marsaglia has 35 years of experience in the financial services industry with particular expertise in corporate and investment banking in Europe and Latin America. In 1987, he was appointed deputy managing director and head of investment banking for Southern Europe at UBS and served as assistant director at Morgan Grenfell from 1983 to 1987. Mr Marsaglia acted as managing director, global head of financial institutions and co-head of investment banking for Europe at Rothschild between 1992 and 2010, and as the chairman of global financial institutions of the investment banking division at Barclays Bank, London between 2010 and 2014. Mr Marsaglia currently serves as executive chairman of corporate and investment banking at Mediobanca, London. In 2015, Mr Marsaglia was named Cavaliere del Lavoro by the President of the Italian Republic for his long-standing contribution to the financial services industry. Mr Marsaglia was appointed to the Bank's Supervisory Board in 2014 and to the Board as an independent non-executive Director in May 2016.

Nicholas Haag

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 has 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 retail 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

Non-executive Director

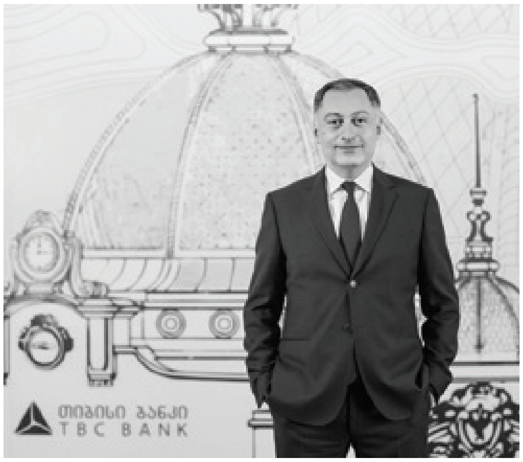
Eric Rajendra graduated from Brandeis University, earned his M.A. at the Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr Rajendra is also a graduate of 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 LOCKO-Bank, 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.

Stephan Wilcke

Non-executive Director

As previously announced Stephan will be leaving TBC Bank and stepping down from the Board as and when suitable replacement is found during 2018. Stephan will remain in post until his successor is appointed.

Stephan Wilcke graduated from UWC Atlantic in 1990 and holds a Master's degree from Oxford University. From 1993 to 2000, he worked at Oliver, Wyman & Co. as a strategy consultant, becoming a partner in 1998. From 2000 to 2007, he worked at Apax Partners as an investment professional, becoming a partner in 2005. From 2008 to 2009, he acted as adviser to the European Central Bank, the Bundesbank and the Luxembourg Central Bank in connection with the collapse of Lehman Brothers and the subsequent failures of Landsbanki and Glitnir. Thereafter, he served as CEO of the UK Government Asset Protection Agency from 2009 to 2011. In 2011, Mr Wilcke joined the board of OneSavings Bank as a non-executive director, stepping up to become executive chairman in early 2012 and stepping back into a non-executive director role after taking the bank through its initial public offering in 2014. He has been a commissioner of the Jersey Financial Services Commission since 2012, served as supervisory board vice chairman of the Nova Ljubljanska Banka from 2012 to 2013, and was a council member of the Hellenic Financial Stability Fund from 2013 to 2015. Mr Wilcke became chairman of the Audit & Risk Committee of BIMA/Milvik S.A. in 2014 and non-executive chairman of Amigo Loans in 2015. He has served as non-executive director and Investment Committee member of the investment firm EMF Capital Partners Ltd. since 2012, and in 2015 Mr Wilcke co-founded his own investment firm, Rozes Invest Ltd. Mr Wilcke was appointed to the Board as an independent non-executive Director in May 2016 and as a member of the Supervisory Board in September 2016.



Vakhtang Butskhrikidze

Chief Executive Officer

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 and as a member of the Supervisory Board in September 2016. Mr Butskhrikidze is also a member of the supervisory boards of the Association of Banks of Georgia and is chairman of the financial committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the supervisory board of the Partnership Fund, Georgia. In 2016, 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, Chief Financial Officer

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

THE BANK'S MANAGEMENT BOARD BIOGRAPHIES (EXCEPT FOR CEO'S AND CFO'S BIOGRAPHIES, WHICH ARE PRESENTED ON PAGE 117)

Paata Gadzadze

First Deputy CEO

Paata joined TBC Bank in 1994 as deputy general director of TBC Bank and was appointed to the Management Board in 1996. In 2005, he was appointed head of the credit department. Paata has held the position of first deputy CEO since 1998. Since 2014, he has held the position of the member of the supervisory board of TBC Leasing. Since 2016, Paata has served as a lecturer at the Free University, Georgia. In 2017, he was appointed as CEO of TBC Insurance and continues to hold the position of First Deputy CEO at TBC Bank. Between 2000 and 2004, he also served as CEO of Georgian Pension and Insurance Holding. In his earlier career, Paata was an assistant to the Minister of State Property Management between 1992 and 1994. Paata also held the position of lecturer at the European School of Management in Tbilisi between 1994 and 2004. Paata graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia.

George Tkhelidze

Deputy CEO, Corporate and Investment Banking

George joined TBC Bank in 2014 as deputy CEO in charge of risk management. After the creation of a 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, 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.

Vano Baliashvili

Deputy CEO, Chief Operating Officer

Vano joined TBC Bank in 1999 as head of service, internal audit and control. He became finance division chief in 2000 and in 2002 he was appointed to the position of deputy CEO, supervising finance and operations departments. In 2010, he became chief operating officer. Since 2008, Vano has held the position of chairman of the supervisory board of UFC and since 2016 he has been a member of the supervisory board of TBC Pay. Vano also supervises activities of TBC Bank's subsidiaries: Banking System Service Company and Mali since 2009 and 2015 respectively. Between 1993 and 1995, he held the positions of intern accountant and accountant at Commercial Bank Sandro and chief accountant at Commercial Bank Shalen. Between 1995 and 1999, he held the positions of economist of foreign exchange division, head of the foreign exchange department, and head of the internal audit department at JSC TbilCredit Bank. Vano graduated from Tbilisi State University in 1992 with a degree in Economics and obtained an MBA from the European School of Management in Tbilisi. In 2011 he obtained a Master's Certificate in Project Management from George Washington University School of Business.

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, SME and Micro 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.

CORPORATE GOVERNANCE AND NOMINATION COMMITTEE REPORT

Chairman's Letter

Dear shareholders,

The Corporate Governance and Nomination Committee (the "Committee") is responsible for developing corporate governance principles and guidelines applicable to the Group and assessing the Group's governance practice in light of international standards of best practice. The Committee continually seeks to ensure that the Board's composition is aligned to the Group's strategic objectives and recognises the importance of building upon Board diversity whilst maintaining the meritocratic approach to Board appointments that has served the Group well during recent years. In addition, the Committee's role extends to recommendations of appointments to the Management Board of its main subsidiary, JSC TBC Bank (the "Bank").

During 2017, succession planning and the composition of the Board and its Committees remained the key focuses of the Committee. The Committee regularly considered the balance of skills, experience and diversity needed on the Board to ensure that the Group has the best calibre of individuals and a clear plan for both executive and non-executive succession. As at the date of this Report the Committee is engaged in selecting an external search firm to identify suitable candidates to join the Board as additional Independent non-executive Directors.

Eric J. Rajendra
Chairman of the Corporate Governance and Nomination Committee

28 March 2018

Members of the Committee

There have been no changes in the composition of the Committee and as at 28 March 2018, the Committee is composed of three independent non-executive Directors, namely Eric Rajendra (Chairman), Nikoloz Enukidze and Stephan Wilcke, and Badri Japaridze, who is not considered to be independent for the purposes of the UK Corporate Governance Code. As such, the Board believes that the composition of the Committee complies with the UK Corporate Governance Code and that the majority of the Committee members are free from any relationship or circumstances which may, could, would be likely to, or appear to, affect their judgement.

Attendance at Committee Meetings

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

The attendance of members at the Committee meetings during the year is set out on page 106.

Committee role and responsibilities

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

The Committee is responsible for the establishment and oversight of the Group's compliance with the corporate governance guidelines and for making recommendations to the Board in respect of changes or additional actions as the Committee deems necessary. The Committee is responsible for leading the process for appointments to the Board and the Bank's Management Board. The Committee is also responsible for identifying and nominating candidates with the appropriate skills and experience, for approval by the Board.

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

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

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

- evaluating the current balance of skills, experience, independence and knowledge of the Board and within the senior management team and, in light of this evaluation, preparing a description of the role and capabilities required for particular appointments;
- ensuring that non-executive Directors are appointed for specified terms, subject to re-election and to statutory provisions relating to the removal of a Director;
- considering and making recommendations to the Board on the composition of the senior management team;

- overseeing the orientation programme for new members of the Board with respect to their Board responsibilities and roles, as well as the contribution that individual members are expected to make; and
- making recommendations to the Board on succession planning for the Board and the senior management team, over the longer term, in order to maintain an appropriate and diverse balance of skills and experience, and to ensure progressive refreshing.

Appointment and re-election of Directors

The Committee considers a skills matrix for the Board, and the Board's committees, and identifies the skills, core competencies, diversity and experience that the Group needs in order to be able to deliver its strategic aims, to govern the Group appropriately and align with the Group's corporate culture and values.

In order to assess the overall effectiveness of the Committee in accordance with the requirements of the UK Corporate Governance Code, the Chairman of the Committee carried out an internal evaluation and Committee is of the view that each Director demonstrated the level of commitment required in connection with their role on the Committee.

In accordance with the UK Corporate Governance Code, all the Directors will stand for re-election at the Company's Annual General Meeting. As already announced, two non-executive Directors, Stefano Marsaglia and Stephan Wilcke will be stepping down from the Board but remain in post pending the appointment of successors, which may or may not have occurred by the time of the Annual General Meeting. Stefano and Stephan will, therefore, only be re-elected if they remain Directors at the opening of the Annual General Meeting.

In addition, as required by the UK Corporate Governance Code, in 2018, (and going forward, once every three years) the Board and its Committees will conduct an independent, externally facilitated self –assessment.

Diversity

The Committee recognises the importance of ensuring that there is diversity on the Board, while continuing to recommend all appointments based on merit in the context of the skills and experience required. The Committee is very mindful that the Board does not currently include any female members and has resolved to ensure that the next appointments to the Board address this concern and complement the Board's diversity in terms of ethnicity, cultures, gender, age levels, relevant skills and work experience. The Committee notes the number of talented women in key positions reporting to the CEO and other Management Board members and, going forward, the Committee intends to increase diversity by identifying qualified female candidates for appointment to the Board and senior management teams.

Board Recruitment and Appointment Process

The Board has formal, thorough and transparent procedures in place for Board recruitment and appointment. In identifying suitable candidates, the Committee typically seeks recommendations from trusted advisers, but may also use external search consultancies to facilitate the recruitment. As at the date of this Report the Committee is engaged in the selection of an external search firm to assist in the requirement of additional non–executive Directors to the Board.

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

The Committee's work

In 2017, the Committee remained focused on succession planning, diversity matters, assessment of effectiveness of the Board and its committees.

Succession

The Committee recognises that good succession planning contributes to the delivery of the Group's strategy, by ensuring there is the desired mix of skills and experience in current and future Board members. During the course of 2017, the Committee chairman personally met with key members of the Management Board and middle management to ensure that the Group creates opportunities for current and future leaders. The Committee has identified strong and weak areas for each candidate and developed a plan for further professional development. The recommended succession planning framework ensures that the Company builds an appropriate internal leadership pipeline and includes initiatives that cover additional qualification courses, training opportunities and recommendations on developing relevant skills as needed.

Corporate governance, independence and diversity

The Committee oversaw the continued developments of the Group's corporate governance framework and reviews of its compliance with the Code requirements; the independence of non-executive Directors, together with non-executive Directors re-election and suitability to continue in office. The review of Directors' independence was also satisfactory, as throughout 2017 all independent non-executive Directors remained independent as to both character and judgement.

Although Board appointment recommendations are always based on merit, the Committee and the Board recognise the importance of diversity and are committed to increasing the diversity of the Board including by adding one or more female members to the Board.

Assessment of effectiveness

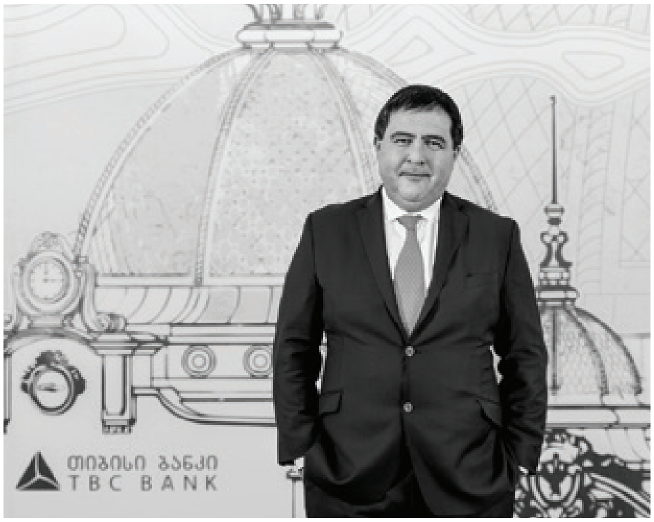
The Committee effectiveness review is conducted every year in order to assess the Committee's performance. This assessment is carried out by the Committee as part of the annual evaluation process. The 2017 Corporate Governance and Nomination Committee evaluation has found that the Committee effectively fulfilled all of its responsibilities and obligations.

Looking forward to 2018

In the coming year, the Committee will continue its focus on increasing gender diversity by seeking to identify talented female candidates for appointment to the Board and to the Group's senior management team. In addition, the Committee will further elevate the performance standards expected of each member of the Board and oversee an external evaluation of the Board's performance. Lastly, the Committee will continue its effort to strengthen the development of the skillset of the Group's senior management team via specialised local and international training programmes.

RISK, ETHICS AND COMPLIANCE COMMITTEE REPORT

Chairman's Letter



Dear shareholders,

I am pleased to present Risks, Ethics and Compliance Committee (the "**RECC**") report for the Group.

Throughout 2017, the RECC continued to take a proactive approach to risk management by closely monitoring and discussing the internal and external challenges facing the Group. Along with regular updates regarding the macroeconomic environment, the Group's risk profile, risk management practices and results, the committee focused on several other issues, namely:

- the recent regulatory changes concerning the new liquidity coverage ratio, risk weighting rules and capital management framework, the details of which are given below under "Regulatory updates";
- the successful project to implement IFRS 9, including updating the Group's provisioning methodology; and
- the post-merger integration of Bank Republic into the Group, which was successfully finalised in May 2017.

In January 2017, TBC Bank appointed a new CRO, David Chkonia, to further strengthen the risk function. He has 15 years of experience in risk management. In previous positions held before joining the Group, Mr Chkonia consulted companies regarding risks, especially those associated with credit and capital market transactions. The RECC worked closely with the new CRO and oversaw the transition process to ensure that he was equipped with all the necessary information to perform his
duties effectively.

The report below summarises the RECC's activities for the year.

Nikoloz Enukidze
Chairman of the Risk, Ethics and Compliance Committee
28 March 2018

Committee responsibilities

The RECC's primary function is to assist the Board in its oversight of all matters related to the risk management and compliance of the Company and the Group as a whole.

The RECC is responsible for recommending the Group's risk appetite limits to the Board and monitoring the risk profile to make sure that it complies with the established limits. It is also responsible for reviewing, assessing and recommending any actions for the Board to take regarding the Group's overall risk management strategy, as well as the risk management system and associated policies.

In addition, the committee reviews and approves credit facilities to large borrowers (if the borrower represents one of the top 20 groups of borrowers of the Bank or exceeds 5% of the Bank's supervisory capital).

The RECC is also responsible for overseeing the Group's compliance activities to ensure that it complies with all applicable laws and regulations and maintains the highest standards of ethical behaviour. The committee supports fostering an ethical culture within the Group based on the principles of honesty, integrity, fairness and transparency.

The RECC's terms of reference are available on the Group's website: www.tbcbankgroup.com.

Committee members and meetings

The RECC consists of five independent non-executive Directors: Nikoloz Enukidze (Chairman), Stefano Marsaglia, Nicholas Haag, Eric Rajendra and Stephan Wilcke. Their biographies can be found on pages 114 to 117.

The committee meets in person on a quarterly basis. At each meeting its members review a thorough report on risk management results for the quarter, as well as updates on compliance and other areas within its remit. The Chief Executive Officer, CRO, head of compliance and key members of the Group's risk and compliance teams normally attend the meetings. Additional meetings, as needed, are held electronically.

The attendance of members at the RECC's meetings during the year, at the Company and the Bank levels, are set out in the Directors' Governance statement on page 106.

RECC activities during 2017

In 2017, one of the Group's primary focus areas was to ensure a smooth post-merger integration with Bank Republic. The RECC played an important role in monitoring the project of aligning all processes, which was successfully completed in the first half of the year. Additionally, the NBG introduced various regulatory changes during the reporting period. The committee closely monitored these changes, including through reviews of periodical regulatory updates and frequent discussions regarding these changes, assessing potential implications for the Group's capital and liquidity management processes, and outlining ways to manage these processes more effectively.

The RECC was actively involved in the IFRS 9 implementation project by, amongst other things, systematically reviewing its progress and the key changes in the provisioning methodology, as well as analysing the expected impact on the Group's level of allowances.

Apart from the above activities, the committee maintained its focus on its key responsibilities of monitoring the Group's risk management processes, promoting progress in risk management tools and techniques, and implementing mitigation actions against prevailing risks.

Risk appetite

The RECC received and reviewed the risk appetite compliance reports at each of its quarterly meetings, during which the committee members discussed the Group's risk profile and respective outlook with the management.

In the beginning of 2017, the RECC discussed updates in risk appetite limits that the CRO proposed, as well as assumptions and drivers for change. The committee suggested certain revisions to the currently proposed limits, which they subsequently considered and approved.

Macroeconomic environment in Georgia

The RECC received a comprehensive report on Georgia's macroeconomic environment and discussed the medium-term economic outlook. Considering that a significant part of the Group's loan book is denominated in foreign currency, the GEL's volatility remained a key focus for discussions throughout the year. The committee discussed potential implications of GEL depreciation on the Group's performance and respective actions that it undertakes to mitigate these risks. The RECC continued to closely monitor how government initiatives launched in the beginning of 2017, which are aimed at reducing the economy's dependence on currencies other than GEL, affected the Group's portfolio composition and discussed expectations going forward.

Credit risk

The RECC reviewed the performance of the Group's loan book at each meeting during 2017. The reports covered the structure of the Group's portfolio, including segmentation by currency, business segments and economic sectors.

The committee received a detailed update regarding the Group's largest exposures during the meetings from the CRO and corporate business director. They presented the strategy for growing the corporate loan book to ensure that it is balanced with proper risk assessment processes. The RECC encouraged the CRO to maintain a balanced growth approach.

Operational risk

Throughout the year, the RECC focused on reviewing the results of internal loss data collection and fraud risk management. The committee discussed establishing and segregating duties among the lines of defence of the Group's internal control system with the aim of further fine-tuning the operational risk management framework. Following a recent incident of identity fraud, a summary of which is set out on page 68, the RECC conducted a further review of TBC Bank's internal control system and recommended the following actions to the Board:

- the enhancement of authorisation processes related to execution of large cash transactions, including those authorised under powers of attorney; and
- the assessment of risks and controls involved with the Bank's operating procedures, with a focus on branch operations.

Financial risks

The RECC closely reviewed the Group's financial risk positions and produced a report that included an assessment of TBC Bank's risks associated with liquidity, foreign exchange, banking book interest rates and counterparties. As part of assessing compliance with the approved risk appetite limits, the committee monitored TBC Bank's readiness to meet the NBG's new regulatory ratio, the liquidity coverage ratio, which came into force in September 2017. In addition, the RECC received comprehensive updates on optimising the liquidity coverage ratio and reviewed a thorough report on the interbank portfolio's performance within the counterparty risk management framework. The committee focused on developing a deep understanding of the interbank limits approval process. At the year-end, the Supervisory Board approved the Bank's counterparty risk management policy in light of the RECC's positive recommendation.

The RECC paid special attention to the reduction in margins, reviewing the interest rate risk positioning of the Bank's net interest income and reports analysing the economic value sensitivities for different interest rate scenarios.

Capital management

The RECC continued to review the internal capital adequacy process and closely monitored compliance with regulatory ratios under different macroeconomic scenarios. During the committee's meetings, it also examined the changes and impacts associated with various capital framework initiatives that the NBG introduced during the reporting period.

In addition to the updated framework discussed below, under the new capital regulations, the NBG initiated a stress-testing exercise. During the RECC's meetings, it reviewed comprehensive presentations covering the methodology of the stress-testing and discussed the results extensively. The main purpose of the stress-testing framework is to use it in the future to define Pillar II buffers.

Compliance

Throughout 2017, the RECC reviewed the Group's compliance programmes on a quarterly basis. The topics of discussion included the following:

- the status of the compliance and anti-money laundering programme's implementation;
- information on the supervision of subsidiaries;
- identified weaknesses and compliance failures, as well as follow-up corrective measures;
- a summary of regulatory changes; and
- a report on whistleblowing cases.

In addition, the committee closely scrutinised the Group's related-party list and transaction tracker for the purposes of the UK Listing Rules during 2017.

As part of the NBG's ongoing operations, it conducted a thematic inspection of the Bank covering the last six years, a summary of which is set out on page 69. The RECC followed up on agreed actions in response to the recommendations that the NBG provided after its inspection.

Regulatory updates

The NBG introduced numerous initiatives during the reporting period. The RECC examined all key initiatives that were relevant for risk management by analysing their impact on the Group's performance. The NBG introduced capital buffers compliant with the Basel III regulatory framework, which are based on the updated capital requirements that will be divided across Pillar I and II buffers. These initiatives include:

- the capital conservation buffer (which is currently incorporated in minimum capital requirements), which has been separated;
- over a four-year period, a systemic risk buffer, which will be introduced for systemically important banks;
- a countercyclical capital buffer, which has been introduced and initially set to 0%;
- a currency-induced credit risk (CICR) buffer, which has replaced the current conservative weighting for un-hedged loans denominated in foreign currencies;
- concertation buffer, which will be introduced for sectoral and single borrower exposures;
- a net stress buffer, which will be introduced based on the stress-testing results that the Group provided; and
- a General Risk-Assessment Programme (GRAPE) buffer, which is defined by the regulator and will be applied based on the Bank's specific risks.

In addition, based on the updated methodology, the NBG has introduced specific payment-to-income (PTI) and loan-to-value (LTV) thresholds, applying higher risk weights to exposures that do not fall into the pre-defined limits for the PTI and LTV ratios.

Apart from the capital changes, the NBG has introduced a liquidity coverage ratio, which is used to manage liquidity risk. 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.

IFRS 9 implementation

The implementation of IFRS 9 began in 2016 and was one of the most significant projects in 2017. The Group developed an enhanced provisioning methodology in line with the IFRS 9 requirements. With the updated methodology, the Group can assess loan loss provisions and allowances accurately with the incorporation of forward-looking information. In addition to developing the methodology, the Group also implemented an accompanying IT tool. The impact of IFRS 9 on the equity, as of the transition moment, amounts to GEL 64 million. Major impacts were observed in the retail segment.

Committee effectiveness review

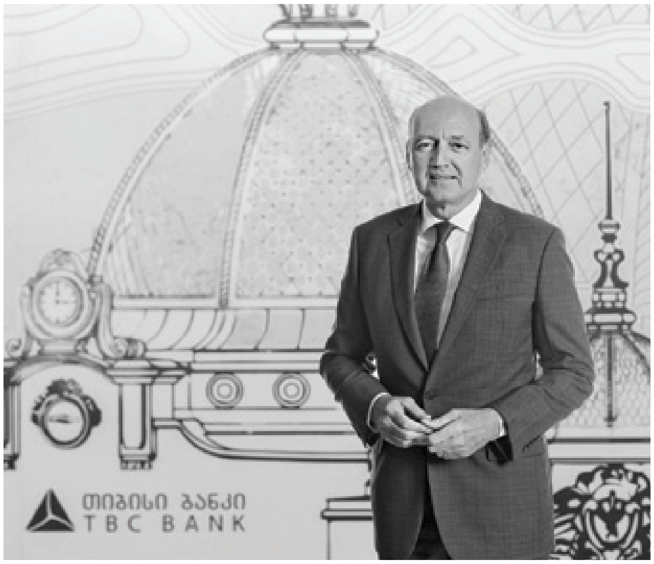
The Board and RECC members conduct a review of the committee's effectiveness every year. The main role of the review is to assess the RECC's performance as per international standards of best practice in corporate governance. During 2017, the RECC was found to be effective in overseeing the Group's risk management, compliance activities and ethical standards.

Looking ahead to 2018

Going forward, the RECC will continue to focus on its key responsibilities of assessment of quarterly risk results and compliance with the Bank's risk appetite, providing sign-off on transactions with the largest exposures, and facilitate progress in risk management tools and techniques. The RECC will continue the close monitoring of the impact that recent and upcoming regulatory changes may have on the Bank's financial standing and respective implications for risk management processes. In addition, key attention will be paid to proper management of risks that may arise from further digitalisation of TBC Bank's services. Moreover, review and monitoring of results produced from newly introduced IFRS 9 models will stay as one of the key focus areas of the RECC, to ensure that respective results adequately capture TBC Bank's expected losses.

REMUNERATION REPORT

CHAIRMAN'S STATEMENT



Dear shareholders,

As Chairman of the Board Remuneration Committee (the "Committee"), I am pleased to present the Directors' Remuneration Report for 2017, which describes the Remuneration Policy (the "Policy") for our executive and non-executive directors.

The Committee continues to ensure that directors' remuneration is aligned with their performance and creates strong motivation to achieve the Group's strategy, meets appropriate regulatory and best practice requirements and takes into the account the views of shareholders as well as other stakeholders.

The executive members' remuneration is comprised of:
- Fixed compensation consisting of both cash-based and share-based payments;
- Annual bonus based on the level of achievement of short-term key performance indicators (KPIs) and consisting of share-based payments only

The non-executive members' remuneration is in the form of monthly fixed cash payments and is based on best practice and specifically FTSE 250 financial companies board membership payments, as well as reflecting the unique individual roles the chairman and deputy chairman play within the Group.

2017 Performance

2017 year was another successful year as the Group recorded high underlying net profit of GEL 369.2 million, 35.1% up compared to the last year. High profits were supported by strong NIM, growth in non-interest income, operating efficiency and strong asset quality. As a result, all corporate financial KPIs were met in full. In addition, the executives achieved a number of corporate non-financial and personal KPIs, as explained below. Hence, executive directors received cash salary equal to the amounts received in 2016, as well as a number of deferred shares under the deferred share salary equal to the number of shares received in 2016 under this component. In terms of deferred share bonus, payouts amounted to 88% and 84% of the maximum opportunity in 2017 for CEO and CFO respectively.

New remuneration policy for 2019

Taking into consideration that our existing executive remuneration policy is expiring at the end of 2018, we have engaged with shareholders and external, independent consultants to enhance our remuneration structure in order to ensure that it is more closely aligned with all stakeholders' expectations and at the same time allows us to attract and retain the best talent. The new strategy, subject to shareholder approval at the 2018 AGM, will come into force from 1 January 2019. The total expected compensation will not exceed 2017 levels. However, there will be improvements in the structure of the compensation to strengthen the alignment of pay with long-term performance and ensure that it better conforms with market practice. The key changes are:
- Rebalancing the variable remuneration component and moving certain part of the annual bonus to a long-term incentive plan (LTIP). As a result, the maximum opportunity under the new policy will not exceed 2017 levels;
- Introducing an LTIP in the form of a performance share plan with a 3 year vesting period subject to meeting performance conditions over this period plus setting a two year post performance holding and continued employment requirement;
- The amount of deferred shares under the base salary and the annual bonus will be calculated by reference to a cash amount rather than a fixed number of shares; and
- The maximum amount of salary and annual bonus will be also fixed by reference to a cash amount rather than number of shares.

We believe, the new policy meets the best and regional practices, is competitive and aligns executives' long-term interests with those of the Group and its shareholders. The full details are outlined in section 10.

Looking ahead

The Remuneration Committee will continue to review the Policy on a regular basis to ensure that it is in compliance with all regulatory changes that might arise, is in line with evolving market practises and continues to promote the long-term success of the Group.

Stefano Marsaglia
Chairman of the Remuneration Committee
28 March 2018

1. Remuneration Committee

The Company's Remuneration Committee is responsible for: establishing and overseeing the Group's remuneration policy principles; considering and approving remuneration arrangements of the executives; and exercising oversight for remuneration. Full details of the Committee's responsibilities are set out in the Committee terms of reference, which are available on our website at www.tbcbankgroup.com.

The Remuneration Committee membership is comprised of solely independent non-executive directors from a wide variety of skills and backgrounds to provide the best input. The members are: Stefano Marsaglia (chairman), Nikoloz Enukidze, Eric Rajendra and Nicholas Haag.

The attendance of members at the Committee meetings during the year at the Company and the Bank levels are set out in the Directors' Governance Statement on page 106.

1.1 Advisers to the Remuneration Committee

Members of the Remuneration Committee provide valuable input in updating the Remuneration Committee on the recent developments in the area of remuneration. However when there is a need, the Remuneration Committee receives external advisory services. In 2017, KPMG was selected by the Remuneration Committee to provide advice to the Remuneration Committee on the remuneration policy for the executive members of the board. The new Remuneration policy that is described in section 10 of the report is based on recommendations provided by KPMG and will be presented for the shareholders' approval at the 2018 AGM.

KPMG was selected as a result of a tender among the potential candidates. The amount of fees for the advice provided to the Remuneration Committee for the year 2017 by KPMG was US$ 29,500, net of taxes. The Fees were charged on a time and materials basis, which was capped at the amount mentioned above.

The Remuneration Committee is satisfied that KPMG's advice was objective and independent and that KPMG team which provides the Remuneration Committee with advice does not have any connections with the Group that may impair its independence. The Remuneration Committee reviewed the potential for conflicts of interest and decided that KPMG had appropriate safeguards in place.

1.2 Statement of voting at Annual General Meeting

Last year remuneration policy was presented to the AGM. The results were as follows:

No	Resolution	Votes For	% of votes cast	Votes Against	% of votes cast	Total votes	% of issued share capital voted	Votes Withheld
1	To approve the directors' remuneration report.	37,705,979	99.39%	232,087	0.61%	37,938,066	72.01%	1,541,174
2	To approve the directors' remuneration policy.	31,505,105	99.72%	87,954	0.28%	31,593,059	59.97%	7,886,181

2. Single total figure of remuneration

The tables below summarize the total remuneration earned by each director of the TBC Bank Group PLC (hereinafter referred as "the Company" or "TBCG PLC")), in respect of their employment with the Company's Group (defined as TBC Bank Group PLC and JSC TBC Bank, "TBCG") for the financial years ended 31 December 2017 and 31 December 2016.

2.1 Single total figure for executive directors (audited)

	Vakhtang Butskhrikidze		Giorgi Shagidze	
	2017[9] US$'000	2016[9] US$'000	2017[9] US$'000	2016[9] US$'000
Salary including:	1,027	872	512	435
Cash salary[1]	454	452	227	226
Deferred share salary[2, 8]	573	420	285	209
Taxable benefits[3, 6]	19	17	1	1
Pension[4]	–	–	–	–
Deferred share bonus award[5, 7, 8]	3,038	2,128	1,441	1,078
Total remuneration	**4,084**	**3,017**	**1,954**	**1,514**

2. Single total figure of remuneration continued

Notes to table:

1. Base salary paid in year to executive directors. No additional fees were paid to executive directors
2. Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year. The number of shares awarded as deferred share salary is linked to the base salary and its current level is fixed at an annual grant of 17,622 TBCG shares for Mr. Vakhtang Butskhrikidze and 8,811 TBCG shares for Mr. Giorgi Shagidze. Deferred shares in relation to 2016 were awarded on 28 March 2017 and deferred shares in relation to 2017 were awarded on 9 March 2018. Deferred share salaries are subject to a condition of continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date a further 10% vests on the second anniversary from award date and the final 80% of the award vests on the third anniversary from the award date. For the purposes of this table, the 2016 award has been valued using the closing market value of the shares on 28 March 2017 (GBP15 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/US$ and 3.0794 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2017 award has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company
3. Taxable benefits comprise medical insurance, company car allowances, and in the case of our CEO, security allowances
4. The Group does not pay pension contributions to the executive directors. None of the executive directors has a prospective entitlement to a defined benefit pension
5. A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year. The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from the award date and the final 80% of the award vests on the third anniversary from the award date. Deferred shares in relation to 2016 were awarded on 28 March 2017 and deferred shares in relation to 2017 were awarded on 9 March 2018. For the purposes of this table, the 2016 award has been valued using the closing market value of the shares on 28 March 2017 (GBP15 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/US$ and 3.0794 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2017 award has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The value of the award is determined in line with the achievement of performance measures, as explained in detail in section 2.2 below
6. Mr. Butskhrikidze and Mr. Shagidze were reimbursed for reasonable business expenses in accordance with the internal policy in force at the time. Such reimbursements have not been included in the single figure table
7. No money or other assets are received or receivable by the executive directors in respect of a period of more than one financial year where final vesting is determined by reference to the achievement of the performance measures or targets relating to a period ending in 2016 or 2017 (as applicable)
8. The increase of deferred share salary and deferred share bonus in 2017 as compared to 2016, is largely due to the increase in share price. The number of shares awarded to executive directors in the same period in aggregate increased by 2%. A full explanation of the basis of the 2017 deferred share bonus awards is given at section 2.2 which highlights the link between strong company and executive performance for 2017
9. The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2017 and the whole of 2016.

2.2 Basis for determining executive directors' deferred share bonus awards (audited)

The 2017 deferred share bonus awards made to executive directors reflect the Remuneration Committee's assessment of the extent to which corporate financial and non-financial, and personal KPIs were achieved. Such objectives were agreed by the Board at the beginning of the year.

The below table illustrates the performance measures set for Mr. Butskhrikidze in respect of 2017, as well as his performance against them:

Performance Measure	Weighting %	Minimum (60%)	Target (100%)	Maximum (140%)	Performance	KPI Evaluation[1]
Financial measures	**60%**					
Underling ROE[2]	15%	18.2 – 20.2%	20.2 – 21.1%	> 21.1%	21.4%	140%
Underlying Cost to income ratio[3]	15%	43.7 – 42.4%	42.4– 41.1%	< 41.1%	40.5%	140%
Non-interest income annual growth[4]	15%	20.3 – 24.8%	24.8 – 27.3%	> 27.3%	24.8%	100%
Cost of Risk	15%	1.8 – 1.5%	1.5 – 1.4%	< 1.4%	1.2%	140%
Non-financial measures	**30%**					
HR[5]	8%					120%
Employee Engagement Index	4%	70–79%	80–89%	>89%	91%	140%
Employee Net Promoters Score	4%	44–49	50–55	>55	55	100%
Customer Experience[6]	8%					100%
NPS in Mass Retail (gap with peer bank)	3%	7–11%	11–17%	>17%	16.7%	100%
CSAT in Mass Retail (gap with peer Bank)	5%	9–12%	12–17%	>17%	16.6%	100%
TBCG PLC share price performance against peer bank[7]	14%	–30%– –15%	–15% –+5%	>+5%	–4.1%	100%
Personal KPIs	**10%**					
Leadership[8]	10%	A–	A	A+	A+	140%
Total	**100%**					**124%**

Notes to table:

1. Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range.
2. Underlying ROE excludes one-off costs related to Bank Republic acquisition and integration.

3. Underlying cost to income ratio excludes one-off costs related to the Bank Republic acquisition and integration.
4. For the purpose of this KPI, non-interest income annual growth is calculated as follows: 2016 figure is the sum of TBC Bank's consolidated non-interest income, without Bank Republic effect, and Bank Republic's non-interest income for the full year, while 2017 figures is TBC Bank's consolidated non-interest income.
5. Employee Engagement Index and Employee Net Promoters Score were measured by an independent consultant.
6. Two indexes were evaluated: the index of "CSAT in Mass Retail" is based on surveys conducted by independent research companies: ACT and IPM, and the index "NPS in Mass Retail" is based on survey conducted by independent research companies ACT.
7. 2017 average share price multiple of TBCG PLC compared with that of the peer bank (in case of similar KPIs under the new policy described in section 10, the Group will not use targets which are discounted compared to the peer group).
8. Leadership skills are assessed by remuneration committee and were regarded as excellent.

The below table illustrates the performance measures set for Mr. Shagidze in respect of 2017, as well as his performance against them:

Performance Measure	Weighting %	Minimum (60%)	Target (100%)	Maximum (140%)	Performance	KPI Evaluation[1]
Financial measures	**36%**					
Underling ROE[2]	10%	18.2 – 20.2%	20.2 – 21.1%	> 21.1%	21.4%	140%
Underlying Cost to income ratio[3]	10%	43.7 – 42.4%	42.4- 41.1%	< 41.1%	40.5%	140%
Non-interest income annual growth[4]	8%	20.3 – 24.8%	24.8 – 27.3%	> 27.3%	24.8%	100%
Cost of Risk	8%	1.8 – 1.5%	1.5 - 1.4%	< 1.4%	1.2%	140%
Non-financial measures	**26%**					
HR[5]	8%					120%
Employee Engagement Index	4%	70-79%	80-89%	>89%	91%	140%
Employee Net Promoters Score	4%	44-49	50-55	>55	55	100%
Customer Experience[6]	8%					100%
NPS in Mass Retail (gap with peer bank)	3%	7-11%	11-17%	>17%	16.7%	100%
CSAT in Mass Retail (gap with peer Bank)	5%	9-12%	12-17%	>17%	16.6%	100%
TBCG PLC share price performance against peer bank[7]	10%	-30%- -15%	-15% -+5%	>+5%	-4.1%	100%
Personal KPIs	**38%**					
Leadership[8]	8%	A-	A	A+	A+	140%
Treasury[9]	10%	90-98% of the budget	98-103% of the budget	>103% of the budget	109.7%	140%
IR[10]	10%					80%
Improving analytical tools and capabilities[11]	10%	A-	A	A+	A	100%
Total	**100%**					**118%**

Notes to table:
1. Each KPI is evaluated at: 60% where achievement falls into the minimum range, 100% where achievement falls into the target range and 140% where achievement falls into the maximum range
2. Underlying ROE excludes one-off costs related to Bank Republic acquisition and integration
3. Underlying cost to income ratio excludes one-off costs related to the Bank Republic acquisition and integration
4. For the purpose of this KPI, non-interest income annual growth is calculated as follows: 2016 figure is the sum of TBC Bank's consolidated non-interest income, without Bank Republic effect, and Bank Republic's non-interest income for the full year, while 2017 figures is TBC Bank's consolidated non-interest income.
5. Employee Engagement Index and Employee Net Promoters Score were measured by an independent consultant.
6. Two indexes were evaluated: the index of "CSAT in Mass Retail" is based on surveys conducted by independent research companies: ACT and IPM, and the index "NPS in Mass Retail" is based on survey conducted by independent research companies ACT
7. 2017 average share price multiple of TBCG PLC compared with that of the peer bank (in case of similar KPIs under the new policy described in section 10, the Group will not use targets which are discounted compared to the peer group).
8. Leadership skills are assessed by remuneration committee and were regarded as excellent.
9. The figures are based on the bank's IFRS standalone numbers and envisages meeting certain level of income from foreign exchange operations and liquidly management
10. IR KPI was divided into two parts:
    - the first was to increase the number of analyst reports based on the following evaluation criteria: +1- below target, +2 on target and +3 above target and
    - the second was TBC PLC share price performance as described in non-financial KPIs (see note 7 above).

    During 2017 one new analyst initiated the coverage. The report for the second analyst was released in January 2018. As a result, the overall IR KPI was assessed at 80%.
11. Launching the advanced profitability and budgeting system. The system was launched in 2017 and Management board assessed the KPI at 100%.

As a result, during 2017, the Remuneration Committee therefore considered Mr Butskhrikidze's performance as excellent and determined the overall value of the deferred share bonus award of US$ 3,037,701 (being the net value awarded of US$ 2,385,209 grossed up for directors' income tax on deferred bonus share awards).

2. Single total figure of remuneration continued

The Remuneration Committee also considered Mr Shagidze's performance as excellent and determined the overall value of the deferred share bonus award of US 1,441,412 (being the net value awarded of US$ 1,138,562 grossed up for directors' income tax on deferred bonus share awards).

According to Georgian tax code, a company is responsible for paying income tax for its employees. As about 95% of the remuneration of CEO and CFO is subject to Georgian tax regulations, the Group pays income taxes for the CEO and CFO total remuneration.

2.3 Further details of fixed and discretionary deferred share compensation granted during 2017 (audited)

The following table sets out further details of the share awards granted to Mr Butskhrikidze and Mr. Shagidze in 2017 in respect of the year ended 31 December 2016.

	Deferred share salary	Deferred share bonus
Type of interest	Direct share award subject to restrictions.	Direct share award subject to restrictions.
Basis on which award was made	As described in note 2 to the table at 2.1 above.	As described in the table and notes at section 2.2 above.
Face value[1] of awards made to Mr. Butskhrikidze	US$ 419,635	US$ 2,127,955
Face value[1] of awards made to Mr. Shagidze	US$ 208,958	US$ 1,077,532
Percentage of award receivable if minimum performance achieved	Legal title to 100% of the shares are registered in the name of participant on the date the award is made. The participant has the right to receive dividends and to vote. The deferred shares, however, are subject to restrictions until they vest. Deferred shares will vest 10%/10%/80% over the period of three years respectively. The award is part of the executive's salary set out in his service contract and is not subject to performance measures or conditions.	Legal title to 100% of the shares are registered in the name of participant on the date the award is made. The participant has the right to receive dividends and to vote. The bonus shares, however, are subject to restrictions until they vest. Deferred shares will vest 10%/10%/80% over the period of three years respectively. The performance period is one calendar year.
Vesting period	Three years, with full vesting on 28 March 2020 subject to continuous employment and malus and clawback requirement.	Three years, with full vesting on 28 March 2020 subject to continuous employment and malus and clawback requirement.
Performance measures	None	See section 2.2 above

1. Figures calculated as described in Notes 2 and 5 to the single total figure table at 2.1 above.

2.4 Change in remuneration of the CEO compared with the wider employee population

The table below sets out the increase in salary, benefits and bonus of the CEO compared with that of the wider employee population between 2016 and 2017:

	Chief Executive	All employees
Salary[1]	17.8%[2]	11.2%[3]
Cash bonus	0%	24.4%[3]
Taxable benefits	8.2%	30.2%
Pension-related benefits	0%	26.1%
Deferred share bonus award[4]	42.8%	70.3%
Total remuneration	**35.4%**	27.7**%**

Notes to table:

1. This includes cash and deferred share salary. The CEO's cash salary increase is calculated in US dollars, the currency which is fixed for his cash salary
2. The increase in deferred share salary reflects the increase in the share price. The number of deferred shares awarded as salary has not changed between 2016 and 2017
3. For all employees' cash salary and cash bonus calculations, the actual increase of the salaries and bonuses of the employees employed at the end of 2017, who were also employed at the end of 2016, was used. The total IFRS consolidated staff cost has increased by 17.9% in 2017 YoY. However, this does reflect the fact that the Bank Republic was only included for 2 months in the P&L statement in 2016 and in 2017 the bank was successful in extracting synergies from the acquisition.
4. The actual number of shares awarded to CEO as part of deferred shares bonus was increased from 89,361 shares in 2016 to 93,348 shares in 2017. The increase shown in the table reflects the increase in the share price.

2.5 Single total figure for non-executive directors (audited)

The table below sets out the remuneration received by each non-executive director for the years ended 31 December 2016 and 31 December 2017. The independent non-executive Directors are remunerated based on the number of committees they serve on and chair. Differences in fees paid to independent non-executive Directors also reflect any differences in tax treatment between jurisdictions, as TBC Bank wishes non-executive Directors to receive similar net pay regardless of the tax system applicable to them.

Director	Year[3]	Fees US$'000	Taxable benefits[1] US$'000	**Total remuneration US$'000**
Mamuka Khazaradze	2017	**1,187**	**29**	**1,216**
	2016	**1,152**	**34**	**1,186**
Badri Japaridze	2017	**1,149**	**23**	**1,172**
	2016	**1,119**	**15**	**1,134**
Nikoloz Enukidze	2017	**160**		**160**
	2016	**140**	–	**140**
Nicholas Haag	2017	**135**		**135**
	2016	**125**	–	**125**
Eric Rajendra	2017	**154**		**154**
	2016	**133**	–	**133**
Stefano Marsaglia	2017	**135**		**135**
	2016	**109**	–	**109**
Stephan Wilcke	2017	**118**		**118**
	2016	**62**	–	**62**
Irina Schmidt[2]	2017	–		–
	2016	**82**	–	**82**

Notes to table:

1. Taxable benefits comprise medical insurance, car, and security allowance
2. Irina Schmidt resigned from the Board in June 2016 after the expiration of her appointment and was replaced by Stephan Wilcke
3. The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and 2017.

The table below shows the detailed breakdown of annual fees paid to non-executive director in 2017 and 2016 in relation to different roles:

	Fees paid in 2017 US$'000[1]	2016 annualised fees established since premium listing **US$'000**[1]
Non-executive director (other than Chairman and Deputy Chairman)	**84**	84
Senior Independent Director	**14**	14
Committee chairmanship	**28**	28
Committee membership	**11**	11

1 All board members receive the same remuneration for the roles listed above except for Eric Rajendra who receives the following fees: board membership- USD$ 94,533, committee chairmanship-US$ 27,206, committee membership-US$ 10,882. This is caused by differences in tax treatment between jurisdictions, as TBC Bank wishes non-executive Directors to receive similar net pay regardless of the tax system applicable to them as mentioned above.

3. Remuneration of the top management of JSC TBC Bank

The table below summarizes the total remuneration earned by the top managers of the JSC TBC Bank for the financial years ended 31 December 2017 and 31 December 2016, except for the CEO and CFO (as their remuneration information is disclosed in section 2 of this report).

Director	Year[5]	Base salary[1] US$'000	Deferred share salary[2] US$'000	Taxable benefits[3] US$'000	Deferred share bonus award[4] US$'000	Total remuneration US$'000
Total for the top managers excluding CEO and CFO	**2017**	**1,377**	**2,004**	**5**	**8,147**	**11,533**
	2016	1,385	1,278	7	4,523	7,193
Per Top manager excluding CEO and CFO (average per 6 members)	**2017**	**229**	**334**	**1**	**1,358**	**1,922**
	2016	231	213	1	754	1,199

Notes to table:
1. Base salary paid in year for executive directors. No fees were paid to executive directors
2. Deferred share salary comprises of TBCG shares granted in respect of service in the relevant year. The number of shares awarded as deferred share salary is linked to the Base salary. Deferred shares in relation to 2016 were awarded on 28 March 2017 and deferred shares in relation to 2017 were awarded on 9 March 2018. Deferred share salaries are subject to a condition of continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from award date and the final 80% of the award vests on the third anniversary from the award date. For the purposes of this table, the 2016 award has been valued using the closing market value of the shares on 28 March 2017 (GBP15 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/US$ and 3.0794 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2017 award has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company
3. Taxable benefits comprise medical insurance and company car allowances
4. A deferred share bonus award is granted as a result of the achievement of performance measures for the relevant financial year. The award is 100% deferred and is subject to continuous employment and malus and clawback provisions. Subject to these conditions, 10% of the award vests on the first anniversary from the award date, a further 10% vests on the second anniversary from the award date and the final 80% of the award vests on the third anniversary from the award date. Deferred shares in relation to 2016 were awarded on 28 March 2017 and deferred shares in relation to 2017 were awarded on 9 March 2018. For the purposes of this table, the 2016 award has been valued using the market value of the shares on 28 March 2017 (GBP 15 converted into USD using the cross rate of the official exchange rates published by the NBG of 2.4455 for GEL/USD and 3.0794 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company. The 2017 award has been valued using the market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company
5. The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and 2017.

4. Payments to past directors (audited)

There were no payments made to past directors relating to 2017.

5. Payments for loss of office (audited)

There were no payments made in relation to loss of office in 2017.

6. Statement of directors' shareholdings and share interests (audited)

While directors are not required to hold a minimum number of shares, the Policy naturally results in our executive directors holding a significant number of unvested shares and achieves a delay between performance and vesting which we believe is consistent with the principles of the Corporate Governance Code. Unvested shares are subject to continuous employment and malus and clawback requirements but are not subject to specific performance conditions.

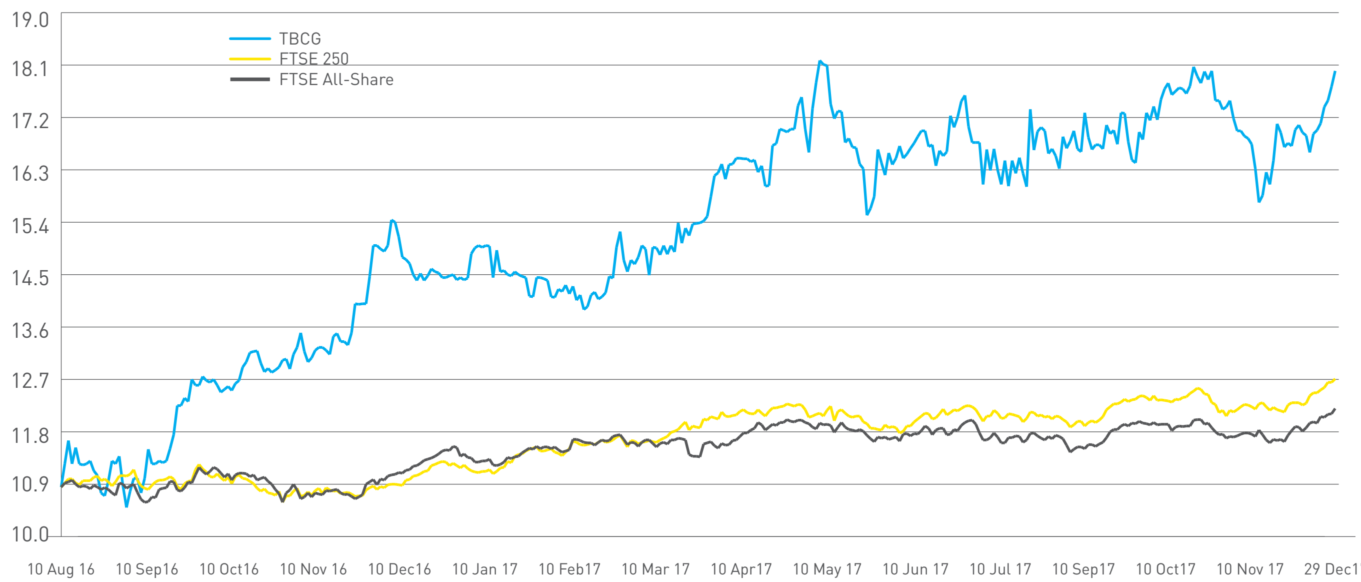
The following table sets out a summary of each director's shareholdings and share interests in the Company. Although not a Company requirement, some non-executive directors have chosen to become shareholders.

	Entity	Number of Vested Shares held[1]	Number of unvested shares held[2]	Total interests in shares[3]
Mamuka Khazaradze	TBC Bank Group PLC	7,343,936	–	7,343,936
	JSC TBC Bank	–	–	–
	Total	7,343,936	–	7,343,936
Badri Japaridze	TBC Bank Group PLC	3,669,878	–	3,669,878
	JSC TBC Bank	–	–	–
	Total	3,669,878	–	3,669,878
Vakhtang Butskhrikidze[5]	TBC Bank Group PLC	586,016	106,983	692,999
	JSC TBC Bank[4]	26,441	160,416	186,857
	Total	612,457	267,399	879,856
Giorgi Shagidze[5]	TBC Bank Group PLC	27,540	54,247	81,787
	JSC TBC Bank[4]	11,792	74,639	86,431
	Total	39,332	128,886	168,218
Nikoloz Enukidze	TBC Bank Group PLC	10,000	–	10,000
	JSC TBC Bank	–	–	–
	Total	10,000	–	10,000
Stephan Wilcke	TBC Bank Group PLC	51,075	–	51,075
	JSC TBC Bank	–	–	–
	Total	51,075	–	51,075

1. This figure includes all shares held which are no longer subject to any vesting conditions or transfer restrictions The figure excludes the shares that are registered in the name of the director but are still subject to vesting conditions in accordance with the deferred share compensation scheme
2. This figure includes shares that are still subject to conditions, including transfer restrictions, a continuous employment condition and malus and clawback provisions. The figure includes shares granted as deferred share compensation each year as a result of the achievement of performance measures for the relevant financial year and deferred share salary. Details of these interests are described at sections 2.1 and 2.2
3. Total interests in shares includes vested and unvested interests held directly and indirectly
4. The shares held in the JSC TBC Bank were awarded to each of executive directors before the premium listing under the applicable compensation policy. Those shares were not exchanged for TBC Bank Group PLC shares due to temporary Georgian tax obligations. Executives intend to exchange those shares for Company shares following the expiration of associated tax obligations
5. On 9 March 2018, the Company has granted share awards to Mr Butskhrikidze and Mr. Shagidze, under the share based payment scheme, in respect of the year ended 31 December 2017. Mr Butskhrikidze has been granted 110,970 shares and Mr. Shagidze has been granted 53,370 shares. These shares have a three year vesting period, with full vesting on 9 March 2021 subject to continuous employment and malus and clawback requirement. These have not been included in the above table. All figures in the table reflect the position as at 31 December 2017. As at 28 March 2018, Mr Butskhrikidze held 294,702 unvested shares and Mr. Shagidze held 146,145 unvested shares.

7. Performance: total shareholder return

The following graph compares the total shareholder return (TSR) of the Company for the period from the date when shares were listed on the premium segment of the London Stock Exchange (10 August 2016) to 31 December 2017, with the performance of the FTSE All-Share Index and FTSE 250 Index over the same time period. These market indexes were selected because they are most comparable to the Company in terms of listing and relevant governance and transparency standards. Further, the Company is included in the FTSE All-Share Index and FTSE 250 Index.



Set out below is a table that contains details of Company CEO, Vakhtang Butskhrikidze's, remuneration for each financial year in the relevant period:

Financial year	Single total figure of remuneration (US$'000)[1]	Deferred share bonus as a percentage of maximum opportunity (%)[2]
2017	**4,084**	**88%**
2016	3,017	85%
2015	1,809	87%

Notes to table:
1. Total remuneration includes base salary, deferred share salary, deferred share bonus award and taxable benefits as described in the single total figure table and notes at section 2.1 above.
2. For further details of the deferred share bonus please refer to section 2.2 above.

8. Relative importance of spend on pay

The following table illustrates the difference in spend on pay for all employees of the Group and the difference in dividends paid to the shareholders between 2017 and 2016. Dividends paid to shareholders for the year ended 31 December 2016 increased by 26% as compared to 2015.

	Year ended 31 December 2017[3]	Year ended 31 December 2016[3]	% change
Total spend on pay[1] (US$'000)	**80,861**	72,768	11%
Dividends paid to shareholders[2] (US$'000)	**31,110**	24,659	26%

Notes:
1. Total spend on pay includes total staff costs and is converted into US$ using average US$/GEL exchange rate for 2017 and 2016 respectively
2. Dividend paid to shareholders are gross amounts converted into US$ using official exchange rate prevailing at the date of payment of the dividends, GEL 2.4047 and GEL 2.2126 for 2017 and 2016 respectively.
3. The Company was incorporated under the Companies Act 2006 in February 2016 and was listed on the London Stock Exchange in August 2016. To provide a comparison for investors, the figures included in this table include remuneration received or receivable from both TBC PLC and TBC JSC for the whole of 2016 and 2017.

9. Policy Implementation in 2018

Remuneration policy for executive directors

The existing remuneration scheme for the executive directors was developed with the support of external consultants and was implemented on 17 June 2015 covering the period of 2015 until the end of 2018. The Group worked with EY to review the existing remuneration policy for executive directors. The existing remuneration policy will expire at the end of 2018.

The Group has developed a new remuneration policy, which is presented in this document and if approved by shareholders on 2018 AGM, will become applicable starting from 1 January 2019.

Non-executive director compensation

As advised by the external consultants and approved by the shareholders on 2017 AGM, the compensation of the Chairman and Deputy Chairman will be decreased by about 20% and 30% respectively starting from 1 January 2018.

Their new fees reflect the complexity of tasks and high intensity of the work carried out by the Chairman and Deputy Chairman to support the growth of the business, taking into account their deep understanding of the market and their roles as the founders of the bank. The Chairman's and deputy Chairman's input add significant value and are key and instrumental for the other members of the Board of Directors and for the Executive Committee members, especially on all strategic matters and relationship with large corporate or individual customers as well as with policy makers.

The Remuneration Committee will continue to seek out shareholder feedback and undertake a benchmarking review of compensation practices when the current policy expires.

Introduction of the Policy for Companies Act 2006 purposes

Due to requirements associated with the Group's premium listing and to comply with Companies Act 2006 requirements, shareholders will be asked to specifically approve the Policy at the upcoming 2018 Annual General Meeting (with the new Policy coming into effect for Companies Act 2006 purposes from 1 January 2019).

Statement of implementation

In 2018, the Remuneration Committee intends to continue to provide remuneration in accordance with the policy tables set forth below as approved by shareholders at the 2017 AGM. Fees and salaries may be adjusted but in all cases will not exceed the maximums stated in the appropriate policy table as approved by shareholders at the 2017 AGM. New targets will be set for the deferred share bonuses. The appropriate level of awards to be granted in 2018 is assessed by the Remuneration Committee but in all cases will remain within the maximums stated in the appropriate policy table as approved by shareholders at the 2017 AGM.

From January 2018 the following will apply:

Executive directors

Base salary (cash and deferred shares)	The cash and deferred share salaries are set out in the executive directors' service contracts. The Remuneration Committee reserves the right to agree changes to the base salary with the executive directors but no change will exceed the maximum stated in the policy approved by shareholders at the 2017 AGM. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.
Deferred share bonus	**Performance measures and weightings:** Performance measures for 2018 are summarized below: ▶ Corporate financial KPIs that are comprised of return on equity, cost to income, cost of risk and net interest margin ▶ Corporate non-financial KPIs that are comprised of employee satisfaction and engagement measures, customer satisfaction measures, and TBC PLCs share price performance against peer bank ▶ Personal KPIs that include leadership skills in the case of the CEO and in the case of the CFO, include leadership skills, IR function specific KPIs, treasury operations targets and cost of funding targets. The corresponding weightings for 2018 are set as follows: (see table below) **Performance targets:** Specific performance targets are considered commercially sensitive as they will give our competitors information about our budget and strategy. The targets will be disclosed in the Group's 2018 annual report.
Non-Executive Directors	
Fees	The fees paid to the non-executive directors will be within the policy approved by shareholders at the 2017 AGM. The Remuneration Committee reserves the right to agree changes to fees with the non-executive directors but no change will exceed the maximum stated in the policy table below. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy.

	CEO	CFO
Financial measures	56%	36%
Non-financial measures	34%	26%
Personal KPIs	10%	38%
Total	**100%**	**100%**

10. Directors' Remuneration Policy

This section describes the proposed new remuneration policy for executive directors, which is expected to come into force starting from 1 January 2019 and is intended apply for 3 years until the end of 2021, subject to shareholders approval at the AGM meeting to be held on 21st May 2018.

The new policy aims to enhance our existing remuneration structure and ensure that it is more closely aligned with all stakeholders expectations, as well as to offer competitive compensation to the executive directors. Total expected compensation will not exceed 2017 levels.

The following table compares the executives' maximum and actual compensation paid in 2017 to their maximum and expected compensation under the new remuneration policy in 2019 respectively.

Director	Year	Base salary US$'000	Deferred share salary US$'000	Annual bonus US$'000	LTIP US$'000	Total remuneration US$'000
CEO	2017 Paid[1]	454	573	3,038	–	4,065
	2019 excepted at target performance	454	510	965	1,141	3,071
	2017 maximum opportunity[2]	**454**	**573**	**3,441**	**–**	**4,468**
	2019 maximum opportunity	**454**	**510**	**1,302**	**1,554**	**3,820**
CFO	2017 Paid[1]	227	285	1,441	–	1,953
	2019 excepted at target performance	227	255	474	569	1,525
	2017 maximum opportunity[2]	**227**	**285**	**1,710**	**–**	**2,222**
	2019 maximum opportunity	**227**	**255**	**651**	**777**	**1,910**

Notes:
1. As described in section 2.1
2. The 2017 maximum opportunity has been valued using the closing market value of the shares on 9 March 2018 (GBP18.4 converted into US$ using the cross rate of the official exchange rates published by the NBG of 2.4462 for GEL/US$ and 3.397 for GEL/GBP on the same date) and grossed up for directors' income tax on share awards paid by the Company.

The key changes are:
- Introducing a long-term incentive plan (LTIP) in the form of a performance share plan with a 3 year vesting period subject to meeting performance conditions over this period. Awards are initially intended to be in the form of conditional share awards, which are conditional rights to receive shares in the Company, but the plan also permits the grant of options and restricted share awards. The performance will be measured over three years and shares will be delivered during the first quarter of the fourth year from the start of the performance period, subject to the achievement of appropriate performance measures. However after delivery, the shares will be subject to an additional two year holding period during which time they will be subject to continued employment. The maximum amounts of the LTIP are as follows: CEO-US$ 1,554,240, CFO- US$ 777,120
- The amount of deferred shares under the base salary and the annual bonus will be calculated by reference to a cash amount rather than a fixed number of shares. The shares granted will be subject to continued employment for a 2 year period as follows: 50% of the award for 1 year from the award date and the other 50% for 2 years from the award date.
- The maximum amount of deferred share salary and the annual bonus will be also fixed by reference to a cash amount rather than number of shares. The maximum amounts of the deferred share salary are as follows: CEO- US$ 510,000, CFO- US$ 255,000. The maximum amount of annual bonuses are determined as follows: CEO- US$ 1,301,760, CFO- US$ 650,880. The shares granted will be subject to continued employment for a 2 year period as follows: 50% of the award for 1 year from the award date and the other 50% for 2 years from the award date.
- The maximum amounts of annual cash salaries to be paid to CEO and CFO are determined to be US$ 453,994 and US$ 227,004 respectively.

It is the Remuneration Committee's intention that the Policy remains unchanged for three years until the end of 2021.

For the avoidance of doubt, it is intended that the new remuneration scheme to be approved at the 2018 AGM allows the existing remuneration scheme for the executive directors to continue until 1 January 2019 with the new remuneration scheme to take effect from 1 January 2019.

10. Directors' Remuneration Policy continued

Pre-existing obligations

It is a provision of this Policy that the Group will uphold all pre-existing obligations and commitments that were agreed prior to this Policy taking effect. The terms of those pre-existing obligations and commitments may differ from the terms of the Policy and may include (without limitation) obligations and commitments under service contracts, deferred share compensation schemes and pension and benefit plans.
We believe, the new policy meets the best and regional practices, is competitive and aligns executives' long-term interests with those of the Group and its shareholders. The full details are outlined below.

10.1 Remuneration policy for Chief Executive Director and Chief Financial Director:

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Fixed Pay				
Base Salary – in the form of cash and deferred shares	Salaries are determined based on market practice and provide each executive director with a competitive fixed income to efficiently retain and reward the director, based upon each director's roles and responsibilities within the Group and relative skills and experience. Cash salary The cash part of the salary is aimed to provide fixed cash remuneration to reflect the complexity of the Group. Deferred share salary Part of the salary is given in the form of shares and despite being salary is still intended to promote the long-term success of the Group by closely aligning executive directors' and shareholders' interests. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition, the shares are registered in the trustees name as nominee for the participants and the participants are entitled to receive dividends.	Both the cash and deferred share salaries are paid in part under the executive director's service contract with TBC JSC and in part under his service contract with TBC PLC, to reflect the executive director's duties to each. Initial salaries are set by the Remuneration Committee based on responsibilities and market data and are set out in an executive director's service contract with the Group. An executive director may be paid separate salaries for roles and responsibilities at different entities within the TBC Group as set out in a separate service contract with any relevant entity. Deferred compensation is subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the deferred compensation there is a material misstatement in the financial results for the year in respect of which the compensation was formally granted, the Remuneration Committee has the right to cause some or all of the deferred compensation for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).	Cash salary The maximum annual cash salary for Chief Executive Director is US$ 453,994. The maximum annual cash salary for Chief Financial Director is US$ 227,004. Deferred Share Salary The maximum annual value for the deferred share salary for the Chief Executive Director is US$ 510,000. The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. However, the maximum is fixed by reference to a cash amount. The maximum annual value for the deferred share salary for the Chief Financial Director is US$ 255,000. The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date.. However, the maximum is fixed by reference to a cash amount. The bank pays income tax[1] and other employee-related taxes related to base salary, however, taxes are included in the maximum amounts. These numbers include the salaries received from both JSC TBC Bank and TBC Bank Group PLC. The executives do not receive any additional salary from other Group entities.	Not performance based.

1 The proposed structure of paying income tax for the executives is due to the Georgian tax code, which requires a company to pay income tax on any benefit paid to the executives (and does not allow for alternative arrangements). However, the numbers disclosed include such income tax estimates.

10. Directors' Remuneration Policy continued

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
			Salaries are reviewed and may be adjusted annually by the Remuneration Committee based on the available market data on compensation among a peer group sample selected by the Remuneration Committee. The Remuneration Committee must ensure that the total reward potentially available is not excessive from the standpoint of relevant employment data. Any changes to salaries must be recommended by the Remuneration Committee and approved by the Board.	
Variable pay				
Annual bonus in the form of deferred shares	To provide a strong motivational tool to achieve the annual KPIs and to provide rewards to the extent those KPIs are achieved. The annual KPIs are chosen to align our executive directors' interests with the short terms strategic objectives of the Group The annual bonus is determined as to the extent that the annual KPIs have been met. Shares are usually delivered during the first quarter of the second year (i.e. the year after the work is performed) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to continued employment; 50% of the shares for 1 year and the other 50% for 2 years from the delivery date. Upon the delivery, whilst the shares remain subject to the continued employment condition the shares are registered in the trustees name as the nominee for the participants and the participants are entitled to receive dividends.	KPIs are set by the Remuneration Committee at the beginning of each year in relation to that year (see more detail below at 10.3(b)). To the extent that the KPIs are achieved, the Remuneration Committee may decide whether an award may be made and the amount of such award. The Group does not pay guaranteed bonuses to executive directors. The nature of the KPIs (but not necessarily their specific weightings) will be disclosed in the annual report published in the performance year. However, the precise targets are commercially sensitive and will be disclosed retrospectively. The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates. Awards are subject to the Group's malus and clawback policies until the shares are vested and during the holding period. If at any time after making the award there is a material misstatement in the financial results for the year in respect of which the award was formally granted, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid).	The maximum value of the annual bonus for the Chief Executive Director, under the annual short-term incentive arrangements, is US$ 1,301,760 (135% of fixed salary). The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. However, the maximum is fixed by reference to a cash amount. The maximum value of the annual bonus for the Chief Financial Officer, under the annual short-term incentive arrangements, is US$ 650,880 (135% of fixed salary). The number of shares is calculated based on the average share price of the last 10 days preceding the committee decision date. However, the maximum is fixed by reference to a cash amount. The bank pays income tax[1] and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.	The KPIs consist of corporate and individual performance measures. Corporate KPIs include financial measures, and non-financial measures with long term focus. Individual performance measures may include individual strategic objectives which vary per person. The performance period is one year. The Remuneration Committee may decide to make no awards where KPIs have not been met.

10. Directors' Remuneration Policy continued

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Long Term Incentive Plan (LTIP)	To provide a strong motivational tool to achieve long-term performance conditions and to provide rewards to the extent those performance conditions are achieved[1]. Performance conditions are chosen to align our executive directors' interests with strategic objectives of the Group over multi-year periods and encourage a long-term view. In order for the shares to be delivered, the executive directors need to meet performance conditions over the 3 year performance period. Share are usually delivered during the first quarter of the fourth year (i.e. the year after the performance period ends) and the exact date is determined by the remuneration committee. Once shares are delivered, they remain subject to 2 year holding period and continued employment requirements. Awards may benefit from dividend equivalents. No dividend equivalents will be paid on any awards (or part thereof) that lapse on or before vesting.	The awards may be granted in the form of conditional share awards, options or restricted share awards. Performance Conditions are set by the Remuneration Committee for a period of 3 years. (see more detail below at 10.3(c)). The Remuneration Committee determines the level of award at the end of the performance period, based on the extent to which the performance conditions have been met. The performance conditions and respective targets will be disclosed in the annual report published in the year of the award. The Remuneration Committee may also adjust performance conditions during the performance period to take account of material events, such as (without limitation): material corporate events, changes in responsibilities of an individual and/or currency exchange rates. Awards are subject to the Group's malus and clawback policies until three years after the shares are delivered. If at any time after making the award the award holder deliberately mislead the Company or the Bank in relation to the financial performance, there is a material misstatement (or material error) in the financial statements of the Company or the Bank, the award holder's unit has suffered a material downturn in its financial performance caused by the award holder, there is misconduct on the part of the award holder that caused material harm to the Company's or the Bank's reputation or there is misconduct on the part of the award holder that caused failure of the risk management resulting in a material loss to the Company or the Bank, the Remuneration Committee has the right to cause some or all of the award for that year or any subsequent financial year that is unvested (or unpaid) to lapse (or not be paid) and to clawback any amount that has already been paid.	The maximum value of the award for the Chief Executive Director in any given year, under the long-term incentive arrangements, to be awarded is US$ 1,554,240 (161% of fixed salary). The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The maximum value of the award for the Chief Financial Officer in any given year, under the long-term incentive arrangements, to be awarded is US$ 777,120 (161% of fixed salary). The number of shares is calculated based on the average share price during the 10 days after the preliminary annual results of the year preceding the year of each grant is announced. The bank pays income tax[2] and other employee-related taxes related to the award, however, taxes are included in the maximum amounts.	The performance conditions for the award are set by the Committee each year. The Remuneration Committee's current view is that performance conditions will include: • a measure of efficiency (e.g. ROE) • a measure of share price performance (e.g. EPS/TSR) • a measure of customer experience Weightings of these measures may vary year-on-year. The performance period is three year.

10. Directors' Remuneration Policy continued

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
		For newly issued and treasury shares, the LTIP is limited to using 10% in 10 years for employee plans and 5% in 10 years for discretionary plans. These limits will exclude shares under awards that have been renounced, forfeited, released, lapsed or cancelled or awards that were granted prior to the Company's IPO or awards that the Remuneration Committee decide will be satisfied by existing shares. The plan will be administered by the Remuneration Committee.		
Pension	To assist our employees in providing for their retirement and to maintain a market competitive benefits package to attract and retain executive directors.	The Group may introduce a defined contribution pension scheme taking into account any pension reform or practice in Georgia. The operation of the pension would be considered by the Remuneration Committee fairly and reasonably and with regard to best market practice. If introduced, there will be no provision for the clawback or withholding of pension payments.	The maximum employer contribution will not exceed 3% of annual salary.	Not performance based.
Benefits	Benefits are in line with Georgian market practice and are designed to be sufficient to attract and retain high calibre talent.	Benefits available to executive directors consist of insurance (such as medical, life and disability insurance), physical examinations, tax gross ups[3], directors' and officers' liability insurance, a car service, personal security arrangements and assistance with filling out tax returns, where required. Executive directors are reimbursed for reasonable business expenses incurred in the course of carrying out duties under their service contracts, on provision of valid receipts. A tax equalisation payment may be paid to an executive director if any part of his remuneration becomes subject to double taxation.	The policy is framed by the nature of the benefits that the Remuneration Committee is willing to provide to executive directors. The maximum amount payable depends on the cost of providing such benefits to an employee in the location at which the executive director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely. Disclosure of amounts paid will be provided in the implementation report and will be explained where the cost of benefits is significant.	Not performance based.

1 This element has been added to the remuneration policy to extend the long term outlook of the policy beyond, but in addition to, the annual bonus plan
2 The proposed structure of paying income tax for the executives is due to the Georgian tax code, which requires a company to pay income tax on any benefit paid to the executives (and does not allow for alternative arrangements). However, the numbers disclosed include such income tax estimates.
3 According to Georgian tax code, the company is responsible for paying income tax for the participants. As about 95% of the remuneration of CEO and CFO is subject to Georgian tax regulations, the Company pays respective taxes on the relevant portion.

10. Directors' Remuneration Policy continued

10.2 Individual arrangements
There are no individual arrangements other than those disclosed in this report.

10.3 Performance measures and targets
(a) Salary – deferred shares
Paying part of the executive director's salary in shares is an important element of remuneration as it helps to align each individual's efforts with the Group's performance. As the executive directors' shareholding will increase each year, we believe this is an effective tool to incentivise executive directors to think about long-term performance. There are no performance measures or conditions associated with salary – the salary is fixed at the outset in the executive directors' service contracts.

The Policy naturally results in our executive Directors holding a significant number of unvested shares and achieves a delay between performance and vesting which we believe is consistent with the principles of the Corporate Governance Code. Unvested shares are subject to continuous employment and malus and clawback requirements but are not subject to specific performance conditions.

(b) Annual Share Bonus
Annual deferred share bonuses are awarded to reward past performance over the year. At the end of the performance year, the shares will be delivered to the extent that annual KPIs have been met (as determined by the Remuneration Committee). Once shares are delivered, the shares will be subject to a 2 year post performance vesting period (with 50% vesting each year) subject to continued employment.

The Remuneration Committee's goal for each KPI is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by our executive directors.

Remuneration committee intention is to retain the current KPIs for the Annual Share Bonus, which consist of corporate, financial (such as ROE, cost to income ratio, CoR) and non-financial KPIs (share price performance, employments and customer satisfaction levels) and individual KPIs (such as leadership and/or performance of specific function) and which reflect the executive directors' required contribution to the Group's overall key strategic and financial objectives for that financial year.

However, given the fact that the first year under assessment for the Annual Share Bonus is 2019, the respective KPIs will be set at the start of the each performance period: 2019, 2020 and 2021. The nature (but not necessarily the weightings) of the KPIs will be disclosed in the annual report published in the performance year. However, specific targets for each KPI will be disclosed only retrospectively given the sensitivity of the measure to the Group's business.

Each KPI will have a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate KPI will be determined by the Remuneration Committee and will be approved by the Board. Individual KPIs will be approved by the Remuneration Committee based on the recommendations of the CEO.

(c) LTIP
The Awards, will be granted subject to performance conditions over a 3 year period. After three years, the shares will be delivered to the extent the performance conditions have been met (as determined by the Remuneration Committee). Once shares are delivered, the shares will be subject to a 2 year post performance holding period subject to continued employment.

This approach will be used for 3 years starting from 2019. Thus, 2019-2021 performance will be measured in 2022, 2020-2022 performance will be measured in 2023 and 2021-2023 performance will be measured in 2024.

Given the fact that the first performance period under the LTIP will start only in 2019, the exact performance conditions will be defined closer to this date.

The Remuneration Committee's goal for each performance condition is to establish a level of performance that is not certain to be attained, so that achieving or exceeding the targets requires diligent efforts by our executive directors. Remuneration Committee's current view is that performance condition will include a measure of efficiency (e.g. ROE), a measure of share price performance (e.g. absolute EPS/TSR) and a measure of long term differentiator such as customer experience. However, in the case of relative KPIs, the Remuneration Committee retains the right to apply downward adjustment considering factors such as absolute share price/TSR in determining the final payouts. Any measure selected, will be closely aligned with the group strategy.

The performance conditions for each three year performance period will be set at the start of the each performance period: 2019, 2020 and 2021. The performance conditions and respective targets will be disclosed in the annual report published in the year of the award.

The Remuneration Committee has discretion to amend the agreed performance conditions in exceptional circumstances if, in the opinion of the Remuneration Committee, the original performance conditions are no longer appropriate.

Each performance condition will have a threshold, target and maximum level and conditions to meet these levels. Targets for each corporate performance condition are determined by the Remuneration Committee and are approved by the Board.

(d) Shareholder guidelines

Executive directors should naturally build up a significant holding of shares in the Company. In order to encourage this and set a standard position, the Company is introducing a minimum shareholding requirement of 200% base salary. There is no set time during which this requirement must be met, but until it is met, executive directors are expected to hold shares (net of tax) acquired under this policy. Shares counted for this purpose include deferred shares paid in relation to salary and annual bonus and any vested awards from the LTIP. Unvested awards from the LTIP will not be counted.

11. Consideration of shareholder views

The current policy takes into account shareholder feedback regarding the remuneration of the Board. Shareholder input has been key to designing the remuneration policy as described above. We have established a practice to meet with the shareholders on this matter and request their feedback, which will continue in the future. The Remuneration Committee remains mindful of shareholder views when evaluating and setting ongoing remuneration strategy.

12. Remuneration throughout the Group

Remuneration of other top management members of JSC TBC Bank is similar to that of the executive members of the Company. Other senior and middle management across the Group as well as some other key employees receive their entire salary in cash and are also eligible to cash and share bonus compensation. All other employees within the Group receive cash salaries and may be eligible to receive cash bonuses. Executive director and employee pay is studied and determined through the use of appropriate market data usually with input from a compensation consultant.

All employees receive a competitive benefit package in line with Georgian market practice and are entitled to participate in the pension scheme on a voluntary basis.

13. Policy table: non-executive directors

In the same way as the executives, the non-executive directors receive their compensation both from the Company and the main subsidiary, JSC TBC Bank, proportionate to the time spent working on the respective entity's Boards and committees. Starting from 1 January 2018 until the end of 2021, the compensation for the non-executive directors is as follows:

13. Policy table: non-executive directors

Component	Purpose and Link to Strategy	Operation	Maximum Opportunity
Fees	To provide appropriate compensation for a non-executive director of the Group, sufficient to attract, retain and motivate high-calibre individuals with the relevant skills, knowledge and experience to further the Group's strategy. In addition, for the chairman and deputy chairman, the Group's remuneration policy reflects the importance and unique role each of them has within the Group.	The Group pays fees to non-executive directors. The fees are determined by the Remuneration Committee and the current level of fees include the following: ▶ The annual fees for the chairman are US$950,000 ▶ The annual fees for the deputy chairman are US$800,000 ▶ The annual fees for acting as a non-executive director (other than for chairman and deputy chairman) range between US$84,375 - US$94,553 ▶ The annual fees for acting as Senior Independent Director, in addition to the fees received for acting as a non-executive director are US$20,000 ▶ The annual fees for relevant committee memberships range between US$10,882 - US$11,250 ▶ The annual fees for committee chairman positions range between US$27,206 - US$28,125 The ranges depend on tax residency status where the Company aims to ensure that the net compensation per each of the items above paid to the non-executive directors are the same. The Remuneration Committee reserves the right to structure the non-executive directors' fees differently in its absolute discretion. The Remuneration Committee's discretion will be exercised fairly and reasonably and with regard to appropriate comparable market practice and business strategy. Fees are generally paid monthly in cash. However, the Remuneration Committee reserves the right to pay the fees on a different basis. Fees are periodically reviewed and adjusted by the Remuneration Committee, having regard to external comparators such as the Group's peer group, the chair or committee roles and responsibilities and other market factors.	The maximum annual fees that may be paid to the chairman and deputy chairman are US$950,000 and US$800,000 respectively. The maximum annual fee paid to the Senior Independent Director is US$175,000. The maximum annual fee paid for acting as a non-executive director (other than for chairman, deputy chairman and Senior Independent Director) is US$165,000.
Expenses	To compensate non-executive directors for expenses incurred in connection with the performance of their non-executive director duties and to ensure the Group has the appropriate non-executive director input as and when required.	The Group may reimburse non-executive directors for their expenses incurred in connection with the performance of their duties including attending Board and committee meetings (such as, for example, travel, accommodation, other subsistence expenses and personal security arrangements), Board/committee dinners and functions, Board training sessions, director's and officers' liability insurance, advice in respect of professional duties and corporate hospitality events (or the Group may pay such expenses directly). For the Chairman and Deputy Chairman, JSC TBC Bank provides insurance, company car service, and a security service for the Chairman only which is a legacy arrangement and widely establish practice in Georgian market.	The policy is framed by the nature of the expenses that the Remuneration Committee is willing to provide to non-executive directors. The maximum amount payable depends on the cost of providing such expenses in the location at which the non-executive director is based. Shareholders should note that the cost of providing comparable expenses in different jurisdictions may vary widely.

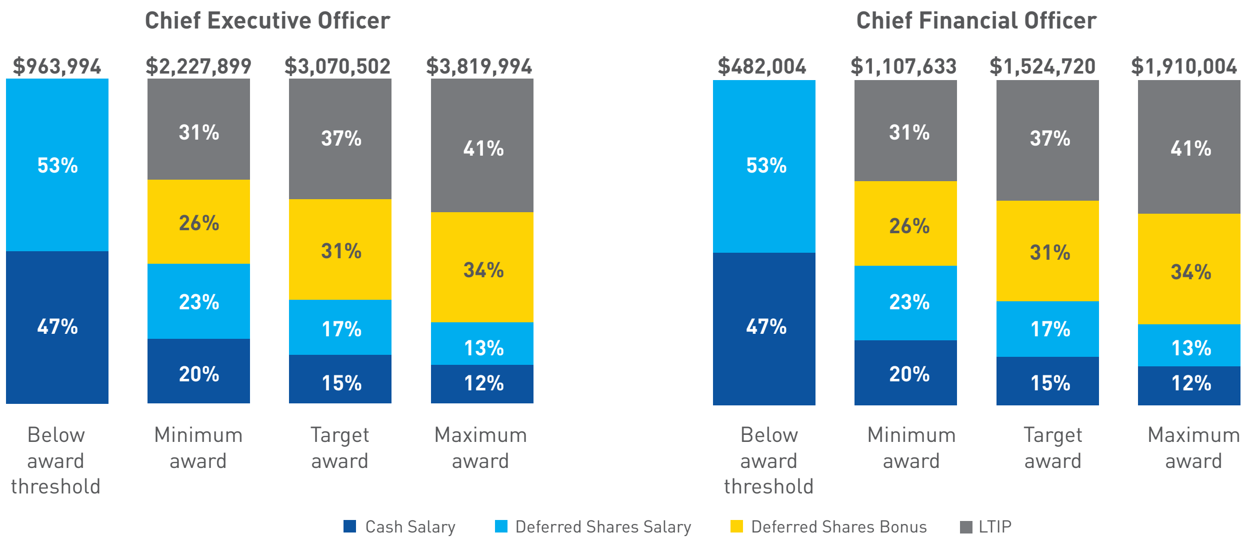
13.1 Non-executive directors

Since non-executive directors are not employees, they do not receive compensation or benefits reserved only for employees such as company paid/subsidised insurance or paid holiday. The non-executive directors are not eligible for performance-based share awards. They do not currently receive pension or other equivalent benefits except for the chairman and deputy chairman who are compensated for and provided with car service expenses. Awards with performance conditions are not part of the non-executive remuneration package as we do not wish the non-executive directors to be driven by short-term Group performance so as to maintain their independence as advisors to the Group.

The non-executive directors are entitled to broad indemnification by the Group pursuant to a deed of indemnity entered into with each director and are covered by the Group's Directors & Officers' Liability Insurance Policy.

14. Illustration of application of the Remuneration Policy

The following graphs illustrate the levels of remuneration that each executive director could earn in 2019 under the new Policy.



Notes:

1. Directors' compensation consists of cash salary, deferred share salary, annual bonus and LTIP. Cash salary and deferred share salary are the same in each performance scenario. No pension contributions have been included in the performance scenarios as we assume no pension contributions will be paid.
2. The "below bonus threshold" chart reflects a scenario where KPI achievement falls below 60% and so no bonuses would be awarded.
3. If KPIs are fulfilled at minimum, on target or maximum ranges the evaluation and subsequent bonus award will be 60%, 100% and 135-137% respectively.

15. Recruitment policy

The Remuneration Committee intends that the components of remuneration set out in the above policy tables, and the approach to those components as set out in the policy tables, will (subject to the remainder of this recruitment policy) be equally applicable to the annual package provided to new recruits, i.e. for executive directors, salary (with cash and share components), discretionary deferred share bonuses, pension and employee benefits; for non-executive directors, fees and relevant expenses.

For an internal appointment of an executive or non-executive director, any pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate. In the year of promotion for an internal appointment, additional awards pro-rated for the time served in the new role may be made to the individual within the maximums set out in the policy tables above.

Where necessary, the Remuneration Committee can make a recruitment-related award to an external candidate. However, the Group will not pay more than the Remuneration Committee considers necessary and will endeavour to deliver any such awards in line with the existing Group policies.

The Remuneration Committee has a preference not to provide a "buy out" arrangement and/or to establish additional or particular arrangements specifically to facilitate the recruitment of the individual. However, where an individual would be forfeiting remuneration or employment terms in order to join the Group, the Remuneration Committee may award appropriate compensation. The Remuneration Committee would require reasonable evidence of the nature and value of any forfeited arrangements and would, to the extent practicable, ensure any compensation was of comparable commercial value and capped as appropriate, taking into account the terms of the previous arrangement being forfeited (for example the form and structure of award, timeframe, performance criteria and likelihood of vesting). Where appropriate, the Remuneration Committee would have a preference for buy-outs to be delivered in the form of shares in the Company. All such awards will be appropriately discounted to ensure that the Group does not, in the view of the Remuneration Committee, over-pay. The Remuneration Committee will also consider the application of performance conditions and/or clawback provisions, as appropriate. Details of any recruitment-related awards will be appropriately disclosed and any arrangements would be made within the context of minimising the cost to the Group. In any case, total value of a recruitment and "buy out" award, should not exceed 100% of the salary (including cash and share salary) paid for the comparable executive position the year immediately preceding to the recruitment.

The Group may make a contribution towards legal fees in connection with agreeing employment terms. The Group may also agree to pay certain expenses and taxes should an executive director be asked to relocate to a different country, such that the executive director pays no more than would have been required in the home location.

16. Policy on payments for loss of office

The following paragraphs describe the Group's general policy on payments for loss of office. Section 16.2 sets out the policy for payments on termination of Mr Butskhrikidze's and Mr Shagidze's service contracts.

Any compensation payable in the event that the employment of an executive director is terminated will be determined in accordance with the terms of any service contract between the Group and the executive, as well as the relevant rules governing outstanding deferred share awards, bonus shares, awards under the LTIP and this Policy. Please see section 16.2 further for a summary of the treatment of such awards where an executive directors is a good or bad leaver.

The Remuneration Committee will take all relevant factors into account when considering whether the director is a good leaver (as set out in their service contract or other applicable plan document). The Remuneration Committee will exercise its absolute discretion to determine whether such terms should be included in any new service contract.

In addition to any payment referred to above, the Remuneration Committee reserves discretion as it considers appropriate to continue benefits beyond the date of termination, pay for relocation to previous location, where applicable, make payments in lieu of notice, accelerate the vesting of equity awards, make a severance payment and/or pay for out placement services and/or legal fees.

Generally, the Group would require a non-compete and confidentiality agreement from the departing executive director to protect the interests of the Group.

16.1 Notice periods

Notice periods are set out in the executive director's service contracts. Generally speaking, either party may terminate the service contract by giving the other party not more than one year and not less than seven months' notice and the Group will reserve the right to terminate without notice in certain circumstances. Notice periods will be reviewed by the Board and the Remuneration Committee when contracts are due for renewal with consideration given to business continuity and potential candidates in the market, amongst other factors.

16.2 Service contracts

The service contracts of executive directors may contain tailored terms which allow for termination payments to be paid if the executive director's employment is terminated under certain circumstances, such as following a corporate change, a change in control, involuntary termination, termination without cause, for "good leaver" reasons (including) death or disability, each as defined in the applicable executive director's service contract. Details of such terms contained in the current executive directors' service contracts are described below[1]:

(a) Service contracts of the Group's current executive directors

Service contracts with TBC PLC

On 12 May 2016, TBC PLC entered into a service agreement with Vakhtang Butskhrikidze. The service agreement can be terminated by either party giving to the other party not less than seven months' written notice. In addition, TBC PLC may terminate the service agreement without notice or pay in lieu of notice for cause (as defined in the service contract). The service contract contains non-compete and confidentiality provisions and is governed by English law.

On 12 May 2016, TBC PLC entered into a service agreement with Giorgi Shagidze. TBC PLC will also reimburse the CFO for all reasonable business expenses properly incurred and paid by him. The service agreement can be terminated by either party giving to the other party not less than seven months' written notice. In addition, TBC PLC may terminate the service agreement without notice or pay in lieu of notice for cause. The service agreement contains non-compete and confidentiality provisions and is governed by English law.

Service contracts with TBC JSC

Vakhtang Butskhrikidze and Giorgi Shagidze also serve as CEO and deputy CEO (CFO) of TBC JSC, respectively. Although it is not strictly required under UK law, we have described the service contracts that the Group's executive directors have with TBC JSC below for completeness.

In 1995, TBC JSC entered into a service agreement with Vakhtang Butskhrikidze. The current service agreement provides for Mr Butskhrikidze to act as CEO of TBC JSC. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

In 2010, TBC JSC entered into a service agreement with Giorgi Shagidze. The current service agreement provides for Mr. Shagidze to act as deputy CEO (CFO) of TBC JSC. The service agreement contains non-compete and confidentiality provisions and is governed by Georgian law.

In September 2016, Vakhtang Butskhrikidze and Giorgi Shagidze were appointed to the Supervisory Board of TBC JSC.

The service contracts are kept at TBC Bank head office a the following address: 7 Marjanishvili street, Tbilisi, 0102, Georgia

Vesting and lapse of awards

The following table sets out the details of the shareholdings for the chief executive director and chief financial director of the Group.

Holder	Number of Shares Held: TBC Bank Group PLC	Number of Shares Held: JSC TBC Bank[1]	Total	Unvested	Vested
Vakhtang Butskhrikidze	692,999	186,857	879,856	267,399	612,457
Giorgi Shagidze	81,787	86,431	168,218	128,886	39,332

1. The shares held in JSC TBC Bank were awarded to each executive director before the premium listing under the applicable compensation policy. Those shares were not exchanged for Company shares due to temporary Georgian tax obligations. The executive directors intend to exchange those shares with Company shares following the expiration of the tax obligations.

If an executive director ceases to be employed by any Group company at his/her sole decision before the service contract expires or if the executive director leaves for a bad leaver reason, the executive director must return all bonus shares awarded for which the continuous employment condition has not been met (or as directed by the Company) and/or any nil cost options awarded will lapse and any unvested awards under the LTIP will lapse. Depending on the circumstances, the Remuneration Committee may, at its sole discretion and with regard to any recommendation made by the CEO of the Company (as applicable), allow the executive director to partially or fully retain such bonus shares and/or LTIP awards.

If the executive director is determined by the Remuneration Committee to be a good leaver, the executive director is entitled to receive an award of deferred salary and deferred bonus shares pro rated for both time and performance during the performance year. All outstanding awards of deferred salary and deferred bonus will continue to vest on their initial terms. Subject to the achievement of the relevant performance criteria, a portion of any outstanding awards under the LTIP may vest, subject to a reduction pro rata to reflect shortened period of employment between grant and the end of the holding period. In general, the original performance period will continue to apply. However, where in the opinion of the remuneration committee, early vesting is appropriate, or where it is otherwise necessary, awards will vest by reference to performance criteria achieved over the period of employment.

If, during the three years after the dismissal of the executive director as a good leaver, it is established that the executive director was a bad leaver, the provisions applicable to bad leavers will apply.

(b) Letters of appointment – non-executive directors

Each non-executive director is required to submit himself or herself for annual re-election at the Annual General Meeting. The letters of appointment with the Group for each non-executive director are effective from 2016. The letters of appointment provide for a one month notice period although the Group may terminate the appointment with immediate effect without notice or pay in lieu of notice if the non-executive director has committed any serious breach or non-observance of his or her obligations to the Group, is guilty of fraud or dishonesty, brings the Group or him/herself into disrepute or is disqualified as acting as a non-executive director, among other circumstances. Upon termination, the only remuneration a non-executive director is entitled to is accrued fees as at the date of termination, together with reimbursement of properly incurred expenses incurred prior to the termination date.

17. Legacy arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before the Policy came into effect (including, without limitation, pursuant to awards granted before the Policy came into effect), or before the individual became a director of the Group (provided the payment was not in consideration for the individual becoming a director). In addition, the policy tables shall not have the effect of limiting any payment to a new recruit made under the recruitment policy set out in section 15 above.

18. Consideration of employment conditions within the Group

In accordance with prevailing commercial practice, the Remuneration Committee evaluates the compensation and conditions of employees of the Group in determining the Policy with respect to executive directors. The Remuneration Committee may engage external advisors to assist in analysing remuneration in the Group. Each year the Remuneration Committee approves the overall percentage pay out for compensation and material changes to employee benefit plans. Consistent with practice in the industry in which the Group operates, it is not the Group's policy to consult with staff on the pay of its directors.

19. Minor changes

The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Policy for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation.

1 The executive directors' service contracts and non-executive directors' letters of appointment are also available for inspection at TBC PLC's registered office.

Chairman's Letter

Dear shareholders,
I am pleased to present the Audit Committee report for the Group.

I invite you to read the results of these and other main activities of the Audit Committee in the report below.

Nicholas Dominic Haag
Chairman of the Audit Committee
28 March 2018

Committee Structure and Role

Since the Company's incorporation in 2016, there have been two separate but inter-connected audit committees in the Group for each of the Company and the Bank, which have common membership and perform a joint function within the Group. In practice, we consider both audit committees as complementary and somewhat fungible with both of them being focused on optimising governance of the Group as a whole, especially because the Bank represents 98% of the Group's total assets. Nevertheless, we continue to ensure that particular resolutions are passed by the appropriate audit committee with as little duplication as possible, while making sure that there is seamless co-operation between the two committees to avoid any gaps in overall scrutiny. For the purpose of this report, we refer to the two committees collectively as "the Audit Committee".

The Audit Committee's primary responsibilities include overseeing the Group's financial reporting process, supervising the process of appointment of external auditors, reviewing the implementation of the Group's accounting and reporting policies and practices, ensuring the integrity, accuracy and full disclosure of the Group's financial condition (including the Group's taxes) and assisting in the assessment of the 'going concern' status of the Group. The Audit Committee is also responsible for reviewing relevant content of the Group's annual reports and interim statements, and supervising the Bank's systems of internal control in relation to financial reporting and certain operational risks including internal investigations into control weaknesses. Moreover, the Audit Committee evaluates the management's competence in all the above areas and ensures that they take necessary corrective actions in a timely manner to address any vulnerabilities.

In relation to the risk assessment function, the Group has a separate Board-level committee responsible for risk, ethics and compliance, the **RECC**, which is chaired by Nikoloz Enukidze, who is also a member of the Audit Committee. Nicholas Haag, the Chairman of the Audit Committee, is, in turn, a member of the RECC. Please see pages 60 to 69 for a description of the Group's risk management framework and pages 123 to 125 for the RECC's report.

Whilst there are synergies between the work of the Audit Committee and the RECC, and they share many of the same complex issues of judgement and policy, we continue to believe that there is a clear benefit in preserving a separate independent Audit Committee as well as a strong RECC. We recognise that there is, in any case, no clear dividing line between financial risk and other risks, but we acknowledge that the Audit Committee is more attuned to risks in financial reporting, whereas the RECC is responsible for monitoring on-going credit and other market risks.

In addition to close cooperation with the RECC, several of the Audit Committee's members, including the Chairman, also sit on the Remuneration Committee, which allows the Audit Committee to track remuneration policies and ensure that there are no incentives which could weaken controls or introduce Management bias in connection with loan provisioning and valuations.

The Audit Committee has adequate administrative resources from the Group's and Board Secretariat and receives sufficient and timely materials from the Management both proactively and when we make additional information requests. The lines of communication with the Management are open with constructive, candid and continual dialogue taking place throughout the year.

Committee Composition, Expertise and Independence

At the end of 2017, the audit committee of the Company comprised five non-executive Directors: Nicholas Haag (Chairman), Eric J. Rajendra, Stephan Wilcke, Nikoloz Enukidze and Stefano Marsaglia. All members of the audit committee of the Company have been deemed as independent under the Code, which is applicable to companies listed on the premium segment of the LSE. We believe that the audit committee of the Company and all of its members continue to exercise fully independent judgement in all matters related to their functions. In addition, members of the audit committee continue to satisfy the director independence criteria as defined by the Georgian Law of Banks.

Committee Meetings

In 2017 the attendance level of members at meetings of the audit committee of the Company was 98%. The majority of meetings took place in London and were attended by members either physically in person or via teleconference. In case of the latter, relevant attendees participated from locations within the UK. The attendance of members at the Audit Committee meetings during the year 2017 are set out in the Directors' Governance statement on page 106.

The meetings of the Bank's audit committee took place in both the UK and Georgia with the majority of meetings taking place in

Georgia. The reason for this is that the Audit Committee is keen to maintain a high degree of interaction with a range of local staff employed by the Bank in operational, financial and control roles. This allows us to gather deeper insights into the Bank's processes, culture and morale of staff, who have functions related to our audit work. This type of review cannot be so easily performed in the UK due to logistical reasons and the extra expense of having to bring a large number of the Bank's employees to London on a regular basis. Attendance of meetings of the Bank's Audit Committee in 2017 is set out in the Directors' Governance statement on page 106.

All current members of the Audit Committee(see biographies on pages 114 to 117 of the Annual Report) are financially literate and possess a detailed understanding of the financial services sector, with backgrounds primarily in the banking industry in both the EU and emerging markets, as well as consultancy, risk management and IT. Most have served on (or chaired) other banks' audit and risk committees, which provides them with the necessary expertise to guide and challenge the Board, the Management and external auditors. The Audit Committee, therefore, has sufficient recent and relevant expertise, in particular of the financial services industry, to operate effectively and it calls upon other expert internal and external resources as and when required. Moreover, the Chairman of the Audit Committee has the recent and relevant financial experience required by the Code to fulfil his responsibilities as a designated financial expert on the Audit Committee.

Although one member of the Audit Committee has a substantially full-time executive role on the management board of another non-conflicting bank and all other members spend much of their time on various supervisory-type boards, the Board believes that members of the Audit Committee have sufficient time to devote to their responsibilities towards the Group. Appropriate training is available to members of the Audit Committee and has recently included professional updates by external specialists on new accounting regulations, which are currently being implemented, and relevant developments in corporate governance and best practice, which training was attended by most members of the Audit Committee. We continue to review, in collaboration with the Corporate Governance and Nominations Committee, suitable medium-term succession plans for the Audit Committee, similar to the same process for all other committees of the Board. Our priority would be to select future members of the Audit Committee with a background in the audit industry or one with a relevant specialist background and knowledge, such as in cybersecurity.

The Committee is also acutely aware of the highest standards expected of disclosure, record-keeping and controls associated with the Company's listing on the premium segment of the LSE. We will continue to work to ensure these standards are fully met and maintained.

Over the course of 2017 there were 8 formal meetings of the audit committee of the Company and the same number for the Bank's audit committee, all of which were minuted. In addition, there were regular interim meetings via teleconference facilities, where members discussed a narrower agenda, mostly around planned releases of financial data. Members are also in regular e-mail correspondence with each other on various matters relating to the Audit Committee's work.

During each formal meeting, the Audit Committee met in executive session without Management present. In addition, we typically also met with at least one member of the Management Board of the Bank responsible for a particular divisional line of business to seek feedback on issues that may have been highlighted in Internal Audit reports. This allows us to impress upon senior members of the Management the importance of minimising deficiencies and remedying any that do occur. We also typically met with other senior members of the Management, notably the CEO, CFO, COO, CIO and CRO. The Head of Internal Audit was present throughout every meeting. We have adopted a policy of inviting **PwC** to attend the entirety of our Audit Committee meetings (except for meetings that address topics sensitive to PwC, such as auditor appointments and fees) because we felt that this would assist with their understanding of the Company and the Group. This also allowed us to benefit from PwC's wide-ranging expertise.

The audit committee of the Company met twice in or around each quarter of 2017, broadly in synch with the Bank's quarterly financial reporting cycle. At least one such quarterly meeting coincided with the timing of our Board meetings and the Audit Committee was scheduled a day in advance of these meetings to ensure that we could formally present our summary findings to the Board. The Audit Committee used such reports for highlighting the scope for process improvement and inviting responses from the CEO or his senior team, which led to follow-up actions that were formally minuted by the Board.

The number of meetings of the audit committee of the Company doubled from that held in 2016, which reflects additional supervisory responsibilities arising from the Company's listing on the premium segment of the LSE, its status as a "Public Interest Entity" under the Statutory Audit Directive (2006/43/EC) of the European Parliament and of the Council and its commitment to enhanced supervision. The Company became a "Public Interest Entity" for the first time in 2017.

In 2017, there were no significant or enduring points of difference of opinion between the Audit Committee and PwC or between the Audit Committee and the Board or Management.

Audit Committee Effectiveness

The Terms of Reference for the audit committee of the Company were approved by the Board on May 2016. The document is available on TBC's website at www.tbcbankgroup.com The audit committee Policy of the Bank was revised and approved in March 2017 and approved by the Supervisory Board of the Bank in the same month.

In March 2018, the Audit Committee conducted an annual Effectiveness Self-Review using an extensive and customised questionnaire. In addition, the whole Board included in its wider Self-Assessment certain questions relating to the efficacy of the Audit Committee amongst other committees of the Board. Both the Audit Committee and the Board concluded that the former is constituted properly, operates effectively and carries out all its responsibilities as laid out in its Terms of Reference and Policy.

Integrity of Financial Statements

We have reviewed, with input from the External Auditor and in-house Finance, Risk and Internal Audit teams, all data and narrative comment and concluded that the Annual Report and full year financial statements give a complete, true, fair, balanced and understandable view of the Group's financial position and are consistent with the Committee's understanding of the facts, and provide the information necessary for the Company's shareholders and other stakeholders to assess the financial condition of the Group.

The Committee is conscious that the Group consists of the Company, which is listed on the premium segment of the LSE , and the Bank, which is the largest financial services company in the Georgian market, and it has legal and social responsibilities to the Company's shareholders and other stakeholders of the Group. Our business is overwhelmingly tied to the performance of the Georgian economy. In 2017 Georgia delivered a strong real GDP growth of 5.0%, an improvement on 2.8% growth in 2016. The Georgian government and third party forecasts for 2018 suggest growth of a similar magnitude may be achievable. At the timing of writing, the macro-economic outlook for Georgia looks more positive than it has been for several years with significant improvements in foreign trade and tourism, as well as development of important, and often multi-national, infrastructure projects, which indicate the potential for Georgia to become more of an international hub economy. Nevertheless, there is always a risk of a sudden downturn due to a changing local, regional or global environment and the Committee, like the RECC, tracks closely (on a weekly basis) relevant economic data for 'warning signs'.

We are equally vigilant in seeking any evidence of complacency which might lead to a risk of deterioration in internal standards. The Audit Committee will seek to ensure that any unexpected deterioration in the Georgian economy will trigger extra vigilance on our part in relation to financial controls and reporting risk since any challenging economic context potentially raises both credit and operational risks within the Bank. The recent adoption of IFRS9 in our view further supports the early revelation of any such potential deterioration in loan quality and it is being swiftly reflected in our models, with any necessary extra provisioning accounted for accordingly. The Group has always operated a conservative provisioning policy but the Audit Committee welcomes the extra discipline imposed by IFRS9 and the additional disclosures to the Group's stakeholders.

The Audit Committee remains as focused as ever on ensuring the integrity of our financial releases and internal records. The Audit Committee pre-vets all audited and auditor-reviewed financial releases, as well as all other financial releases, before making recommendations to the Board to approve these. The Audit Committee holds formal discussions with the Management, in particular the CFO (and his finance team), about each of these releases, typically with a multi-stage drafting, review and approval process. We are also in regular communication with the External Auditor via both teleconference facilities and correspondence before approving any releases. We have extended the remit of Internal Audit which now undertakes its own assessment of financial and regulatory reporting to give the Audit Committee further assurance on the integrity of our reported numbers and, above all, the governance process involved in assembling and releasing our financial statements in the public domain. We also monitor the financial data published on the TBC Bank's website to ensure its accuracy.

External Audit Team and Planning

The Audit Committee makes recommendations on the appointment (or potentially removal) and compensation of external auditors and seek to maximise the value of the external audit relationship. We assess and approve audit scope and frequency, make recommendations to auditors on areas for particular focus and receive and review key external audit reports.

The audit committee of the Company held multiple audit planning meetings with PwC in 2017, commencing this process in the middle of the year. The Audit Committee had the opportunity (without involvement of the Management) to highlight areas it wished the External Auditor to focus on, flagging relevant concerns and trends, and discussing the appropriate audit response.

The Audit Committee has a policy of regular quarterly face to face discussions with PwC as part of our formal meeting agendas, proactively and mutually addressing any material audit or control issues. In addition, the Chairman and often other members of the Audit Committee, had a similar number of more informal (i.e. not minuted) meetings with PwC at occasional but frequent intervals, which combined mutual audit planning/execution updates with some element of briefing or training to the Audit Committee's members on the latest developments in accounting regulations and corporate governance, which included, in particular, PwC sharing with us experiences of best practice across their full international audit spectrum. This provided both parties with the opportunity for open dialogue.

Given the holding company structure of the Group, both the London and Tbilisi practices of PwC are fully involved in the audit process for the Group. PwC Georgia and PwC in Azerbaijan, which audits our small Azeri subsidiary, are both part of PwC's Central and Eastern Europe network firm. In the opinion of the Audit Committee, this 'double coverage' works well and provides some extra reassurance to us in terms of scrutiny of the Group's financial and risk-management processes. We also enjoy ready access to our audit engagement partner (Jeremy Foster) for the entire Group, who is aware of his overall responsibility and ultimate sign-off duties, and the cooperation and communication between the two audit practices is well coordinated with a common audit methodology. The London audit team coordinates the entire audit for the Group and the balance of PwC's audit responsibilities is shifting somewhat from Tbilisi to London. We expect this trend to continue going forward. The Chairman and majority of the Audit Committee's members are based in the UK and enjoy ready access to the audit team there.

In our view, Jeremy Foster has exhibited not only strong technical skills but also a good understanding of the Group's business, the country and sector. He has also exhibited suitably robust challenge and professional scepticism in relation to the audit. The Audit Committee has shared its views on audit and partner quality with PwC's own independent senior partner, who collects client feedback and seeks to maximise standards of service by PwC.

In 2017 we welcomed Agnieszka Accordi as the new PwC audit partner for the Bank's audit. We are satisfied with the smooth transition from the previous longstanding PwC audit partner for the Bank and she has made a strong hands-on start to understanding the Bank's business and audit issues and is also a subject-expert in areas of importance to us, in particular IFRS9. Agnieszka is based in Warsaw but, similar to Jeremy Foster, has already travelled to Georgia on a number of occasions.

Areas of Focus for External Audit and Audit Committee

The audit coverage and the judgements about underlying audit materiality have been explained to us satisfactorily. We agreed with PwC an overall consolidated audit materiality sum of GEL19.7m for the Group compared to GEL15.8m in 2016. The increase is related to the further expansion in the Group's size and profitability. We continue to believe that pre-tax profitability of 5% is a suitable and meaningful materiality basis for the Company, especially given the relatively stable performance of the Group's profitability metric over the years.

In accordance with our normal practice, we have assessed the reasonableness and appropriateness of all critical accounting estimates and judgements in applying accounting policies. In the frequent planning meetings held between the Audit Committee and PwC, there were a number of areas of focus identified. The key accounting judgements and significant estimates were identified and have been addressed with appropriate resources, including the necessary involvement of specialists in these areas.

In particular, we agreed with PwC that the two most significant audit-related risks were the Management's ability to override controls and the provisions for impairment of loans and guarantees. We also agreed with PwC an additional elevated risk in relation to the disclosure of the potential impact of IFRS9 given the complexity of determining such estimates and the requirement to guide the market as soon as valid estimates became available. Other risks in terms of areas of judgement that we asked PwC to focus on included accruals for litigation and claims, collateral values supporting the Group's loan book, net realisable value of repossessed collateral, fair value of securities and derivatives, share based payments and impairment of goodwill.

Provisions and impairments

In terms of loan provisions, we have worked with PwC in verifying the current provisioning methodology used by the Bank, challenging these assumptions and examining individual (mostly corporate loan) exposures on the non-performing and 'watch list'. We have confirmed the completeness of this 'watch list', which we note tends to be stable in composition without frequent additions that would indicate a deteriorating book or poor 'capture' of problem loans. We have also sought to use our judgement to back-test the reliability of the Bank's previous impairment assumptions, which we have found to be reasonably conservative compared to observed reality, partly because the Georgian economic climate has proven to be more resilient than the Bank's earlier assumptions. We note that in 2017 we made significant recoveries from corporate loans that we had provisioned or written off.

The Audit Committee, benefiting from work streams led by the RECC, continues to monitor on a regular basis individually-assessed loans on the Bank's 'watch list' but also collectively-assessed loans that are less than 90 days past due (and not yet classified as impaired) to calibrate any deterioration of credit quality that may feed through into impairments. Given the continued challenging macro economic situation in Azerbaijan, the Audit Committee has paid close attention to the portfolio quality of TBC Kredit, our Azeri subsidiary. We note that there has been some stabilisation in the quality of this portfolio since 2016.

Clearly, one of the biggest factors impacting and also reflecting the Georgian economy is the stability of the local Lari currency. The Lari has been prone to periods of volatility, particularly in early and late 2017, which was, to some extent, affected by the seasonality of FX inflow and outflow among other things related to the tourism industry and energy imports. The exchange rate appears to have now stabilised and the Lari is currently trading at a higher level against the US$ than at the start of 2017, partly reflecting the apparent weak dollar policy of the US government.

Given the still highly dollarised nature of the Georgian economy and the Bank's loan book, we invited PwC to scrutinise the Management's judgements as to the continuing creditworthiness of those of the Group's clients (including both retail and corporate) without matching dollar sources of income. In reviewing provisioning levels the Audit Committee has sought and received detailed data on such currency mismatches and the RECC has performed a deep-dive into this risk issue. We note that, in previous periods of national currency volatility, our assumptions regarding the impact of this on the quality of the loan book have proven reassuringly cautious on a back-tested basis and the periods of Lari weakness over 2017 were, in our view, not sustained enough per se to be reflected in changes to the quality of our portfolio. In addition, we note that the welcome "larisation" policy of the Georgian government has and will continue to diminish the credit and financial reporting risk.

Implementation of IFRS9

Whilst the new standard was not formally adopted until 1 January 2018, IFRS9 was clearly an audit priority for the Audit Committee in 2017. As noted above, this was almost by definition an area of "elevated risk" in the audit since the implications for the Group are significant (in the same way as for most European banks), with necessary anticipatory disclosure about the likely transitional impact and the inherent risk of misstatement.

In 2017, the Audit Committee, together with the RECC, oversaw the Group's preparations for the implementation of IFRS9 which has been a complex project launched by the Group in the middle of 2016. Both the Audit Committee and the RECC at regular intervals invited the CFO, CRO and the internal dedicated Credit Risk and Finance team to provide them with updates and supporting materials. The Group worked with Deloitte, our project consultant and product vendor, throughout the year and the main inputs and outputs were shared with PwC.

We obtained confirmation that PwC, employing their accounting, modelling and IT specialists, have adequately identified the key sources of complexity, judgement and uncertainty in the Group's estimates of expected credit losses under IFRS9. They have undertaken substantive testing of key model methodologies for completeness, availability and accuracy of the data flows and for key judgements and assumptions, as well as the governance and internal controls involved. We note, however, that there is limited historical loss data in the Georgian market. The Bank has undertaken 'parallel runs' (i.e. IFRS9 vs IAS39). We have also maintained a close dialogue on the subject with the NBG.

We anticipate that the Bank's provisioning policies described above will enhance the Bank's already robust approach to financial reporting on credit risk. There has been a lot written about the potential impact of IFRS9 being likely to result in higher provisioning and profit and loss volatility, particularly amongst smaller banks. However, the Bank has a record of steady growth in earnings and we anticipate that the impact on our results may be somewhat less material. We recognise that the impact of IFRS9 will take time to calibrate across all across financial institutions and that there will be an element of "informed guesswork" (as it has been widely described) in financial reporting until the new standard is definitively established.

Readiness for other accounting standards

The Audit Committee has also looked at other accounting standards recently adopted or in the pipeline, most notably IFRS15 (which has applied since January 2018) on revenue recognition and IFRS16 (which is expected to come into force from January 2019) on leases. IFRS 15 potentially changes the profile of revenue and in some cases cost recognition. However, we anticipate no material impact because most of the Group's revenue will be outside the scope of the new standard (as the proportion of contractually "uncertain" revenue streams is small and, equally, the cost differential is also small) and this is reflected in the impact disclosure in our published 2017 financial statements.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, which will become effective starting from January 2019. It will change the reporting standard of leasing transactions for the lessees. Given the low volume of transactions where the Group is the lessee, we do not anticipate any material impact on the financial statements of the Group. Under IFRS 16, the lessor accounting remains largely unchanged from IAS 17 and, hence, the change will have no impact on transactions where the Group is a lessor.

Management's ability to override controls

In terms of the significant risk of Management's overriding of controls, we note that this is a priority risk factor on all audit engagements, especially in a banking context because the Management is responsible for the design and operation of systems to prevent and detect fraud and, thus, it is in a unique position to manipulate accounting records. In response to this risk PwC conducted review of organisation-wide governance systems and overall control environment. We asked Internal Audit to pay special attention to the bedding down of controls in relation to the Group's acquisition of Bank Republic. The operational merger was completed in May 2017 and this has several implications for audit in terms of process flow and the integration of differing bank systems. We invited PwC to analyse the integration and alignment of policies and procedures. The Audit Committee was satisfied that this integration has been essentially completed.

Deferred tax

Another particular focus area of the Audit Committee has been the de-recognition of deferred tax balances under changes in Georgian tax regulation. In May 2016, the government enacted changes to incentivise the reinvestment of corporate profits. The new code impacts the recognition and measurement principles of the Group's income tax and also affects the Group's deferred income tax assets/liabilities. Whist this law will not come into effect for the banking sector until January 2019, it has a more immediate impact on deferred tax calculations. In 2016, the Group had a one-off income charge of GEL 17.9m related to this change and in 2017 the change decreased the effective tax rate from a potential 12% to 9% through reducing deferred tax liabilities relating to the period from 1 January 2019. However, the potentially tax-free reinvestment of future profits will have a positive effect on lowering the Group's future effective tax rate by several percentage points further, starting from 2019.

Reporting on the alternate performance measures

The Audit Committee is conscious of the recommendations of European authorities and the UK's Financial Reporting Council (the "FRC") in connection with improving the reporting of alternate performance measures ("**APMs**"). We carefully track what APMs the Group uses in its financial reporting. The Group discloses a limited number of APMs, such as adjusted cost to income ratio, various return metrics and adjustments for the Bank Republic acquisition. We consider that most of these (for example, the return metrics pre- as well as post-provision) are in common usage and meaningful additions to our reporting designed to clarify rather than obfuscate our financial position and do not detract in any way from our core IFRS numbers. Some of them, such as for Bank Republic, are inherently time-limited in terms of usage.

Revised segment accounting methodology

One other area that the Audit Committee intends to focus on in 2018, and has already discussed with the CFO, is the revised segment accounting methodology that the Group is changing from 1 January 2018 because this has implications around divisional profitability and strategy, as well as touching on remuneration incentives.

External Audit Quality, Tender Assessment and Reappointment

The Audit Committee is responsible for the assessment of the performance, objectivity and independence of the External Auditor and the delivery of a good quality audit. Each year the Audit Committee is required to consider the reappointment of the auditors, the suitability of the lead engagement partner, as well as the wider audit team, and the remuneration and terms of engagement for the chosen auditor. PwC have undertaken a comprehensive assessment of their independence, in accordance with the requirements of standards and relevant legislation.

PwC has been the Group's External Auditor since 2008. 2017 marks the 10th year in which PwC has audited the Group. Consequently, the Audit Committee had extensive discussions in 2016 and 2017 regarding the merits of conducting an external audit tender under the UK implementation of the EU Audit Regulations for Public Interest Entities (the "**EU Regulations**"). Given the Group's recent incorporation of the Company and its listing on the premium segment of the LSE, the audit rotation rules permitted the 10-year "audit clock" for the mandatory tendering of the Group audit to be re-set to start in 2016, obviating any requirement for a mandatory audit tender in the foreseeable future. However, taking into account the existence of the Bank prior to the incorporation of the Company and the duration of our relationship with PwC, the Audit Committee evaluated, with input from the CFO, whether there would be a case nonetheless to initiate an audit tender. The Audit Committee concluded that it would be distracting to change auditor shortly after the Company's listing on the premium segment of the LSE and given other important work streams for the Group's finance team, such as the adoption of IFRS9. Accordingly, the Company has complied with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency of external auditor tenders for the financial year under review.

We are also mindful that the availability of leading audit suppliers in the Georgian market is somewhat limited and further restricted by potential conflicts in respect of the provision of such services to other large Georgian banks, which makes a change of auditor more difficult but not impossible. In addition, we have taken into account the extra 'safeguards' of a relatively recently appointed lead engagement partner since 2016 ie Jeremy Foster), the shift of the centre of gravity for the audit to London from its historical base in Tbilisi and a new engagement partner for the Bank's audit (ie Agnieszka Accordi) appointed in 2017. Consequently, last year we resolved to defer any decision whether to hold an audit tender and we expect that, subject to the finalisation of suitable contract terms and the Board approval, PwC will remain the Group's External Auditor for 2018.

There is clearly an interesting ongoing global debate about the so-called "audit gap", which is the occasional difference between expectations of users and auditors as to the responsibilities of the latter and the nature of the audit engagement. Leaving this aside, the Audit Committee has concluded that PwC have delivered a high quality audit. In 2017, PwC made reliable and effective judgements at all stages, identified and focused on areas of greatest risk and convincingly articulated their testing strategy. We welcomed the candour of the audit partners for both the Company and the Bank and the clarity of their observations in private and informal sessions. As noted above, we are confident in the technical and personal qualities displayed by Jeremy Foster and Agnieszka Accordi, and that they have deployed sufficient PwC human and automated (i.e. data analytics) resources and were well supported by experienced audit managers in both London and Tbilisi. We also note PwC's proven continuing ability to meet our tight reporting deadlines in the context of a larger Group, the Company's listing on the premium segment of the LSE and our acquiring the status of a FTSE 250 company. Feedback from our CFO and finance team has been positive expressing the view to the Audit Committee that PwC have demonstrated a good understanding of the Group's business and the current economic environment in Georgia and have provided useful insight into corporate governance and good advice on the enhancement of disclosures in this Report. Equally, PwC have shared with us supportive insights into the Management as part of their audit findings.

In the meantime, both the Audit Committee and the Management consciously cultivate relationships with other prominent audit firms and some of their individual partners in London and Tbilisi and use the allocation of non-audit services as an opportunity to engage with and to 'try out' different firms and to familiarise some of them with the Company and our business. Audit quality will always be paramount in our selection of auditor.

External Audit Quality Validation

As noted in last year's Report, **FRC** undertook a routine formal Audit Quality Review ("**AQR**") of PwC's audit of the Bank for the year ending December 2015. It is reassuring to us that the AQR confirmed that the audit was properly "compliant" and was awarded one of the FRC's highest compliance categories. The AQR did not highlight any significant areas for improvement and nothing that brought into question the reappointment of PwC. Over the course of 2017, we have tracked progress in the minor follow up recommendations noted by the FRC in their AQR and implemented with PwC small changes in audit procedure (for example, acceleration of communication with this Committee).

External Audit Independence and Provision of Non-Audit Services

The Audit Committee is rigorous in ensuring that all non-audit assignments to our External Auditor do not jeopardise the latter's proper independence of judgement. We will typically use our External Auditor only where such non-audit services are required by legislation to be undertaken by the incumbent auditor or where the service is a 'by-product' of the audit process. The Group's policy as to the provision of non-audit services was updated in 2016 and is regularly reviewed to ensure that it continues to be appropriate. Essentially, all such engagements, without exception or derogation, are first recommended by the CFO and must be approved in advance by the Audit Committee. We will then use our External Auditor for non-audit services only where there is either a clear synergy with their audit role or where they offer superior competence or materially better commercial terms. No non-audit services were provided by PwC that are or will be "prohibited" in the foreseeable future by the UK's implementation of relevant EU Regulations. We have a system in place for precisely tracking procurement and tendering for all non-audit fees irrespective of their size and scope.

PwC provide the financial audit both for the Company and the Bank. In 2017 fees to PwC for total contracted audit-related work totalled US$877,000 (net of taxes), of which the fees attributed to the Group's financial audit was US$645,000 with three-quarters for the Company's audit and a quarter for the Bank's audit. The balance of PwC's fees related to additional financial reviews for both entities, audit of other subsidiaries and other miscellaneous audit-related work (such as provision of comfort on financial covenants). We also used PwC for tax audit work in our Azeri subsidiary after a full tender process.

Only 2% of the Group's total spend with PwC in 2017 related to non-audit work. In addition, only 3% of the Group's total non-audit services spend was awarded to PwC compared to 70% in 2016, which was then due to the exceptional work related to the Company's listing on the premium segment of the LSE and a number of acquisition-related transactions. The rest of the total non-audit services spend was shared between three other large firms. As stated above, we work with other firms not only to preserve auditor independence but also to build relations and user experience that will be useful when the Group decides to tender its audit contract in due course.

In terms of non-audit related services, the biggest consulting spend of 2017 (US$180,000) related to designing a methodology around IFSR9 with Deloitte being chosen following a tender of 5 firms and an open tender for fair valuation services was awarded to KPMG. In summary, total spend with the so-called 'Big Four' firms on contracts in 2017 amounted to c. US$1.2M. Nearly three-quarters of this was for audit-related work, all of which went to PwC. As regards the non-audit consulting spend, only US$20,000 of approximately US$300,000 was awarded to PwC (excluding c. US$8,000 paid for tax audit in our Azeri subsidiary), which was in respect of providing consulting services for implementing accounting rules in our leasing subsidiary with PwC winning on price and relevant experience.

The Audit Committee will remain mindful of the relatively new EU Regulations on capping the quantum of non-audit fees that can be billed in any one year to an external auditor (70% of the average audit fees billed in the last three consecutive years). We do not believe that the Company will have cause to breach these rules even in the event that PwC remains our External Auditor after 2018.

We note that there is a commercial banking relationship between PwC Georgia and the Bank but this is not material in size and it is conducted in the ordinary course of business and pre-dates the appointment of PwC as the Group's auditors.

PwC have confirmed in writing their independence and that no "prohibited" non-audit services were provided. There were no independence issues raised by the FRC when they completed their AQR on the Company's audit in 2016. We remain satisfied, taking account also of the views of Internal Audit and the Management, that PwC have a robust process for maintaining independence and monitoring such compliance in accordance with the FRC's 2017 Ethical Standards. In our view, PwC continue to offer an independent, professional and cost-effective service that is capable of detecting any audit irregularities. Any potential threats to auditor objectivity (overfamiliarity, self review etc.) are, we believe, contained by existing safeguards. In particular, we are convinced that the objectivity of the lead audit engagement partner and audit staff is not impaired. We reached this decision on the basis of PwC's openness to challenge, our perception of their proper independence from the Management and absence of any material prior year financial restatements.

Internal Audit

The Audit Committee has continued its regular dialogue with Internal Audit during 2017. The Audit Committee relies heavily on Internal Audit to provide an objective and professionally sceptical view of how the Bank is handling a number of key financial and non-financial reporting and record-keeping tasks. Whilst primary responsibility to manage risk always resides with the Management, Internal Audit's role, acting in its capacity as the "third line of defence", is to identify potential problems and recommend ways of improving risk management and internal control. The Audit Committee meets regularly with the Head of Internal Audit (i.e. the Chief Audit Executive ("**CAE**")) with no members of the Management present during such meetings. The CAE always attends the entirety of our Audit Committee meetings. As Chairman of the Audit Committee, Nicholas Haag is in at least monthly (and often weekly) contact with the CAE, who functionally reports unambiguously to him.

Internal Audit's Charter has been reviewed and approved in March 2017. The Audit Committee routinely reviews Internal Audit's remit and annual and rolling 3-year plans, on which it provides feedback and authorises any changes to their scope. We provide targets for and formal assessment of Internal Audit and ensure that it is effective, suitably embedded in the organisation and used and respected by the Management. The CAE routinely attends monthly Management Board meetings as an observer, makes a formal quarterly submission to the Audit Committee and delivers a formal status report on its work at every Board meeting as well as providing an annual summary Internal Audit report which presents an overall assessment of the effectiveness of the governance, risk and control framework within the Group and an analysis of themes and trends emerging from its work.

The Audit Committee solely determines Internal Audit's budget and compensation including variable bonus payments to the CAE and her staff. The Audit Committee is also responsible for supervising the annual personal performance assessment of the CAE, drawing on input from peers, direct reports and senior members of the Management, including the CEO and the CFO.

We are satisfied that Internal Audit has sufficient human and financial resources to perform its role and the Audit Committee has, where necessary, requested additional funds for them to purchase the training and tools necessary to function effectively. The Audit Committee requires all Internal Audit executives to attend training and to take relevant international (Certified Internal Auditor) exams. Recently, the senior team of Internal Audit attended training in London at the Chartered Institute of Internal Auditors.

In February 2018, the Committee conducted an assessment of the Internal Audit function and concluded that the department is suitably structured and proactively meets its assurance objectives. The quality of the Internal Audit function continues to improve. Our internal assessment of Internal Audit suggests that it is already in compliance with over 90% of best practice targets established by the Chartered Institute of Internal Auditors in its September 2017 guidance on effective internal audit in the financial services sector and we expect to be 100% compliant by the end of 2018. We had planned to conduct an External Quality Assessment ("**EQA**") of Internal Audit in 2017 but decided to delay this until 2018 in order to allow time for the merger of Bank Republic to be completed and integrated into the Group's business and to ensure that a valid assessment of the combined departments could then be meaningfully undertaken. The merger of the two Internal Audit units has now been completed satisfactorily and the deputy head of internal audit at Bank Republic has joined the Bank as deputy CAE. We therefore intend to conduct an EQA of Internal Audit during the course of 2018.

We believe that Internal Audit has not only established its independence from the Management but feels properly empowered and motivated to perform its functions and carry out its duties. Internal Audit's value is recognised by the Management, who have proactively requested (with sign off from the Audit Committee) their involvement in various projects and investigations.

At the behest of the Audit Committee, we are in the process of establishing a new Bank-wide rating system for Internal Audit's audits, whereby we will fine-tune the scoring methodology that the latter uses to evaluate the quantum/severity of sampled anomalies found in branches and service centres in respect of various transactional and lending processes. We will then establish new thresholds to rank each of the Bank's units into categories ranging from "good" to "unsatisfactory". The intention is to establish clearer and fairer benchmarks for acceptable levels of identified (and often very minor) deficiencies. Internal Audit are also working with the Operational Audit department to establish a criticality-based hierarchy of processes, which will again determine the scoring outcome for different units within the Bank. There will be zero tolerance for any unmitigated critical process failures.

In addition to its regular workload, there were a number of one-off projects commissioned by the Audit Committee from Internal Audit in 2017. For example, we asked Internal Audit to re-validate processes around capturing and disclosing related party lending within the Group. In 2018, the Audit Committee has requested Internal Audit to confirm the adherence of the Bank to its approved risk tolerances. We have also asked Internal Audit to work jointly with the Risk department to create a more comprehensive Bank-wide register of risks to ensure we have sufficiently captured and recorded all types risks, to which the Bank is exposed. In addition, we have asked Internal Audit in 2018 to undertake a 'cultural audit' of the Bank. As non-executive directors of a company, it is often hard to understand the prevailing culture at lower levels of an organisation yet this often determines the opportunity, incentives and pressures for staff, which may lead them to commit dishonest acts or to by-pass critical procedures and even to rationalise this behaviour. Therefore, the Audit Committee considers that such a cultural audit is essential to monitoring behavioural risks presented by the Bank's most valuable asset, its human capital, and confirming that employees 'live' the ethical values espoused by the Company and the wider Group.

The Audit Committee has increasingly organised Internal Audit's plan to be risk-weighted (i.e. investigate the higher risk priorities more frequently and in greater depth) and also more flexible, allowing it to conduct one-off projects where the Board or the Management wish it to undertake special investigations arising from situations where the Bank may have heightened vulnerability or has been the victim of fraud. While we are still some way from automated internal auditing, Internal Audit has invested in specialist software, which will enable it to speed up some of its more routine tasks, allowing it to concentrate on its most added-value functions. Internal Audit must always try to stay ahead of business developments in the same way as all other assurance functions and it must use the 'power of data' to deliver 'intelligent audit'.

Control Environment

A sound system of internal control contributes to safeguarding the best interests of all stakeholders and the Group's assets and liabilities. The Management is responsible for establishing and maintaining adequate internal controls over the capturing, processing and reporting of financial information but the Audit Committee has responsibility for ensuring the effectiveness of these controls and for confirming that they are sufficiently robust to cope with changing economic conditions and continued strong growth in the Bank, with approximately 7 million branch transactions executed in 2017. We evaluate the Management's identification of fraud risk and implementation of anti-fraud measures and supervise investigation of any alleged or suspected frauds brought to our attention. We seek to establish the right 'tone at the top' and to assess whether the Group is a high integrity organisation from top to bottom.

The Audit Committee regularly reviews progress in this vital discipline and alerts the CEO, CFO, divisional heads and, if necessary, the entire Board where it occasionally sees intractable problems and insufficient commitment to continuous process improvement. The Audit Committee was pleased to note that in 2017 there was a further improvement in the rate and speed of remediation of identified Internal Audit deficiencies, especially in the Group's Retail segment.

In accordance with our mandate, we have reviewed the robustness of the Bank's controls, working with our External Auditors, our Operational Risk department and Internal Audit. In the opinion of the Audit Committee, there is a proper system and allocation of responsibilities for day-to-day monitoring of financial controls within the Group and there have been no significant failings or weaknesses during 2017. We have also considered the risk of Management override of controls and discussed with PwC their assessment of this mandatory significant audit risk. We ensure that the remuneration of senior and middle members of the Management is calibrated to ensure that they are not incentivised to take unhealthy short-term risks to generate personal rewards.

The Audit Committee has had sight of the "management (internal control) letter" submitted by our External Auditor and has reviewed the Management's response to it and discussed it directly with PwC. We also note that no non-standard representations have been requested from or provided to PwC in respect of the "management representation letter" signed by the Group's CEO and CFO. Together with the RECC, we have received regular updates from the Chief Compliance Officer on the implementation of the Bank's compliance programme, which we consider to be sufficiently robust.

Internal Audit seeks to complete audits of all the Bank's key operating risks on a regular basis and this activity has continued in 2017. In particular, we tracked very closely all deficiencies, both in terms of severity and trend, and scrutinised remediation follow-up with historic analyses being carefully maintained. The Bank's units, which showed weaknesses are routinely re-inspected to confirm if improvements have been made and the Audit Committee is regularly updated on the results of these repeat audits.

The Audit Committee is increasingly holding not only senior members of the Management but also middle management executives of the Bank accountable for any recurring failures within their control. This active enforcement has been endorsed by the Board. The Key Performance Indicators ("**KPIs**") in respect of meeting control targets and reducing identified audit deficiencies continue to be cascaded down to the local level and also included as KPIs for members of the Management Board of the Bank. The emphasis is on minimising and mitigating high priority process failings that may lead to real financial and reputational risk for the Bank and the Group as a whole. We agreed in 2017 to roll out governance-type KPIs in 2018 across branch directors and managers, with a significant double digit percentage of their personal variable compensation being dependent on the scores their units achieve. By driving this cultural change, we believe this will help to diminish operational risk and improve behavioural norms. In addition, as noted above, we are in the process of establishing a new Internal Audit scoring system that sets clear thresholds on what level of 'failure' is unacceptable and which processes demand zero failure rates.

In 2017, the Audit Committee liaised closely with the RECC to undertake a deep-dive into the Operational Risk structures within the Bank, working with the new head of this department. One of the conclusions of this work was the need for a more streamlined approach to managing, investigating and reporting fraud risk events, especially given the historic dispersion of responsibilities in this regard.

As a matter of policy, the Audit Committee have sought this year to elevate the oversight of all the Bank's geographic (e.g. TBC Kredit in Azerbaijan) and product (e.g. TBC Insurance, TBC Leasing, TBC Pay) subsidiaries with additional reporting to central functions, whilst not diminishing the authority of subsidiary executives. We have, for example, started an initiative to ensure that all best practice policies are rolled out universally and 'policed' by Internal Audit accordingly.

In 2016 the Bank's 'whistleblowing' or anonymous hotline for staff and external entities went live, alerting the Bank to any potentially unsatisfactory practices. Arrangements are in place for proportionate and independent investigation of all such cases and appropriate follow up actions. The Audit Committee reviews each reported case on an at least quarterly basis. Our experience over 2017 has been that many of these cases have been small in scale and typically related to breaches of the Group's behavioural code of conduct or have involved low-level disclosure of confidential customer information; few have been vexatious and all have been worthwhile 'alarms'. Most importantly, we believe that our employees and customers have come to realise that 'speaking up' is valued and taken seriously.

IT, Cyber-security and Data Protection

In 2017, the Audit Committee maintained its focus on IT issues, especially following the NBG's request in 2016 that the Bank, as a systemic player in the local market, undertake an external IT resilience audit which it has passed. Against a backdrop of increasingly sophisticated global cyber-attacks, cybersecurity has risen towards the top of the Audit Committee's and the Board's agenda in 2017, not only to protect against risk of immediate losses but also to protect against business disruption and reputation risk. The Audit Committee has supervised an internal cyber 'health check' and gap analysis, and concluded that whilst there are areas for improvement, the risk environment is satisfactory and that we have sufficient prevention, detection and containment practices in place. Nevertheless, the Bank has initiated a plan to address certain areas for improvement and it is in the process of evaluating the availability and cost/benefit of taking out some form of cyber-risk insurance policy even though such policies have historically not been available for the Georgian market.

Internal Audit has an experienced IT auditor on its staff who has a particular specialisation in IT security and we believe that this helps to monitor and maintain IT security standards. The Management continuously seeks to raise risk standards within the organisation requiring almost all employees to pass an IT security awareness test covering vital vulnerabilities such as access control. In 2017, the Audit Committee also sponsored a review of IT governance within the Group, which has being undertaken by a specialist third party consultant and seeks primarily to validate the depth of alignment between the Group's business and IT strategies.

The digitisation and collection and use of data is proceeding everywhere at an unprecedented rate and organisations face significant uncertainty over the extent and pace of regulatory change and genuine public integrity and privacy concerns. We are conscious that Georgia has just appointed a new data regulator, the office of the Personal Data Protection Inspector ("**PDP**"), who we understand are currently working on amendments to the local law in order to align it with the EU's General Data Protection Regulation ("**GDPR**"). It is also possible that the Bank may have to comply to some extent with the EU's GDPR regulations and we are seeking legal advice on this but our expectation is, given that the Bank has only limited exports of data outside its non-EU operational markets, that the GDPR is unlikely to be triggered by the day-to-day operations of the Bank and it will be able to ring-fence itself against any breaches of these provisions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TBC BANK GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion, TBC Bank Group PLC's consolidated financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the consolidated and of the parent company's affairs as at 31 December 2017 and of the consolidated and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts ("Annual Report"), which comprise: the consolidated and separate statements of financial position as at 31 December 2017; the consolidated statement of profit or loss and comprehensive income, the consolidated and separate statements of cash flows, and the consolidated and separate statements of changes in equity for the year then ended; and the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for these opinions

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the 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.

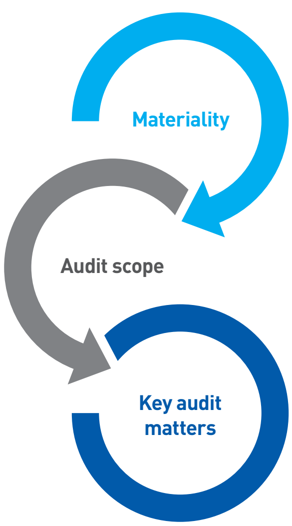
Independence

We confirm that PricewaterhouseCoopers LLP remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

Our audit approach

Overview



- Overall consolidated materiality: GEL19.7m (2016: GEL 15.8m) based on 5% of profit before tax.
- Overall parent company materiality: GEL 14.7m (2016: GEL 15.8m) based on 1% of total assets.

- Our scoping was driven by legal entity contribution to profit before tax and also by geographical location. This approach also ensures that we align our resources with the location of the key financial reporting functions and material operations of the Group. We also considered overall coverage in assessing the appropriateness of our scoping. Our primary location for scoping purposes is Tbilisi, Georgia.
- The area of focus which was of most significance in the audit of the consolidated financial statements was:
  - Impairment of loans and advances to customers.
  There were no key audit matters to report on the audit of the parent company financial statements.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Group and parent company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and the requirements of key regulators such as the Financial Conduct Authority in the UK and the National Bank of Georgia for the operations in Georgia. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers **Refer to page 175 (Summary of Significant Accounting Policies), page 181 (Critical Accounting Estimates and Judgements in Applying Accounting Policies), pages 182 -184 (note 5: New Accounting pronouncements), and pages 186 to 192 (note 9: Loans and advances to customers).** Impairment provisions are a key judgement representing management's best estimate of the credit losses in the underlying loan portfolios. Determination of the appropriate provisions involves complex calculations and the effect of misstatement on the financial statements could be material. Loss provisions are calculated on a collective basis for loan portfolios with similar characteristics, and this is done mainly using statistical models driven by both observable and management determined key inputs such as probabilities of default ("PD") and the loss given default ("LGD"). Individual impairment assessment is performed where individually significant loans have unique characteristics that require judgement at a loan level to determine the present value of expected future cash flows and any resulting shortfall. We have focused our work on the following key areas: • Completeness of observed impaired loans and appropriateness of the assumptions used to estimate impairment events which have been incurred but not reported; and • Calculation of the required impairment provisions based on estimated future cash flows, including the use of models and the critical assumptions and inputs used in those models.	We understood and evaluated the design of the key controls over the impairment processes and tested their operating effectiveness. These controls included: • the governance over the impairment provisioning processes which includes review and approval and the review of key assumptions; and • identification by management of impairment events and relevant loans showing indicators of impairment including other indicators such as forbearance. We noted no significant exceptions in the design, implementation or operating effectiveness of these controls. Accordingly, we relied on them for the purposes of our audit. We assessed whether the impairment methodology was in line with IAS 39 requirements. In addition, we performed the following substantive procedures in response to the areas of focus. We tested a sample of performing loans (including loans on management's watch list) to evaluate whether impairment indicators existed as at the balance sheet date. This included evaluating the specific circumstances of the borrower, including the latest developments, the basis for measuring the impairment provision, and whether key judgements were appropriate. We did not identify any further impairment events not previously identified by management. We tested individually significant exposures on a risk basis to assess the appropriateness of recorded impairment provisions for the Corporate and Micro Small and Medium Enterprises ('MSME') portfolios. We re-performed management's impairment calculations, testing key inputs such as expected future cash flows and discount rates. With respect to modelled provisions, we tested key assumptions including the PDs and LGDs used in the model calculations. We compared provisions against the historical performance and market data so as to assess the estimation accuracy of the key models and consider completeness of post model adjustments. Based on the procedures performed and the evidence obtained, we found management's methodology, assumptions and judgements to be reasonable.

On 1 January 2018, the Group transitioned to the new financial instruments accounting standard IFRS 9, which replaced IAS 39. The most significant change for the Group under IFRS 9 relates to the provisions for impairment which is now on an expected loss basis, replacing the incurred loss provisioning under IAS 39. In order to meet the requirements of the new standard, significant changes have also been made to processes, models and related controls with effect from 1 January 2018. The estimated transition impact is disclosed in note 5 to the financial statements in accordance with IAS 8. The most significant change relates to the provisions for impairment, including changes to related systems, processes and controls.	*IFRS 9 transition impact disclosure* In respect of the estimated impact of the adoption of IFRS 9, we understood and critically assessed classification and measurement decisions and the impairment models developed by the Group. This included using our credit modelling experts in our assessment of judgements and assumptions supporting the expected credit loss requirements of the new standard. We re-performed selected model calculations to confirm the model outputs, tested key data inputs and assessed the reasonableness of forward looking information incorporated into the impairment calculations, in particular, where proxies were adopted due to limited data in the market. Based on the evidence obtained, we found that the methodologies and key data inputs used within the models were appropriate, and that the model assumptions and related model outputs were reasonable. We also assessed the disclosure of the transition impact and consider this reasonable and in accordance with the requirements of IAS 8.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

TBC Bank Group's banking and insurance activities are primarily carried out in Georgia, with small subsidiary operations in four other countries. The Group's business activities comprise of 4 segments for which it manages and reports its operating results and financial position, namely Retail Banking, Corporate Banking, Micro Small and Medium Enterprises ('MSME'), and the Corporate Centre.

JSC TBC Bank is the largest subsidiary of the London listed Group. Its main operations are Retail and Commercial banking, with a small general leasing and insurance business, with all significant operations based in Georgia. Accounting functions and management of the Group are primarily based in Georgia, which represents 98% of the Group assets and 96% of profit before tax. We performed audit procedures over this component which is considered financially significant in the context of the Group, using a materiality of GEL 18.7m. We also performed other audit procedures including testing information technology general controls and other relevant controls related to financial reporting, to mitigate the risk of material misstatement.

Our audit approach and team was also designed to reflect the structure of the Group, and we therefore used component auditors in PwC Georgia, all of whom are familiar with the relevant businesses in their geographical locations, to audit the relevant component that was in scope for the Group audit. As part of the planning and execution of the audit, the UK audit team visited the significant component in Georgia on several occasions, in order to ensure that the procedures performed to support the Group audit were sufficient for our purposes. Specific audit procedures were also performed at the UK parent company, mainly related to the presentation of the Group financial statements, the consolidation process, taxation and elements of laws and regulation specific to the UK. Based on the procedures we performed over the reporting units our audit scoping/coverage accounted for 96% of revenue and 98% of total assets of the Group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Consolidated financial statements	Parent company financial statements
Overall materiality	GEL 19.7m (2016: GEL 15.8m)	GEL 14.7m (2016: GEL 15.8m)
How we determined it	5% of profit before tax.	1% of total assets
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the consolidated Group, and is a generally accepted auditing benchmark.	The parent company is a holding company with investments in the trading companies within the Group. The parent company's performance is measured based on the valuation of these investments, and therefore total assets is considered an appropriate materiality benchmark.

For the component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality allocated was GEL18.7m (2016: GEL 15.5m).

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 940,000 GEL (Group audit) (2016: 790,000 GEL) and 740,000 GEL (Parent company audit) (2016: 790,000 GEL) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 111 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 111 - 112 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 113, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 151 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on pages 112 - 113, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the Audit Committee on 11 August 2016 to audit the financial statements for the year ended 31 December 2016. We were reappointed by the members at the Annual General Meeting on 5 June 2017 following the recommendation by the Audit Committee to audit the year ended 31 December 2017. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2016 to 31 December 2017.

Jeremy Foster

Jeremy Foster
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 March 2018

SEPARATE STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2017**	31 December 2016
ASSETS			
Cash and cash equivalents		**210**	399
Due from other banks		**11,564**	2,320
Loans and advances to customers		**24,000**	2,000
Other financial assets		**219**	303
Investments in Subsidiaries		**1,429,485**	1,424,066
Other assets		**8**	4
TOTAL ASSETS		**1,465,486**	1,429,092
LIABILITIES			
Other financial liabilities		**825**	165
TOTAL LIABILITIES		**825**	165
EQUITY			
Share capital	25	**1,605**	1,581
Share premium	25	**714,651**	677,211
Retained earnings		**670,444**	745,638
Profit/(Loss) for the year		**86,789**	(385)
Other reserves	26	**(8,828)**	4,882
TOTAL EQUITY		**1,464,661**	1,428,927
TOTAL LIABILITIES AND EQUITY		**1,465,486**	1,429,092

The financial statements on pages 163 to 254 were approved by the Board of Directors on 28 March 2018 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

Registered No. 10029943

The notes set out on pages 170 to 254 form an integral part of these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of GEL	Note	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance as of 26 February 2016		–	–	–	–	–
Loss for the period		–	–	–	(385)	(385)
Total comprehensive expense for 2016		–	–	–	(385)	(385)
Merger relief and capital reduction	25	1,494	565,030	–	745,638	1,312,162
Share issue	25	87	112,181	–	–	112,268
Share based payment accrual	26	–	–	4,882	–	4,882
Balance as of 31 December 2016		**1,581**	**677,211**	**4,882**	**745,253**	**1,428,927**
Profit for the year		**–**	**–**	**–**	**86,789**	**86,789**
Total comprehensive income for 2017		**–**	**–**	**–**	**86,789**	**86,789**
Share issue	25	**24**	**37,440**	**(24,253)**	**–**	**13,211**
Dividends declared	25	**–**	**–**	**–**	**(74,809)**	**(74,809)**
Share based payment accrual	26	**–**	**–**	**10,543**	**–**	**10,543**
Balance as of 31 December 2017		**1,605**	**714,651**	**(8,828)**	**757,233**	**1,464,661**

The notes set out on pages 170 to 254 form an integral part of these financial statements.

SEPARATE STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of GEL	**2017**	2016
Cash flows from (used in) operating activities		
Interest received	**1,348**	1,149
Interest paid	**–**	(32)
Fees and commissions paid	**(12)**	(1)
Salaries and other employee benefits paid	**(3,469)**	(631)
Administrative and other operating expenses paid	**(1,423)**	(890)
Other operating income received	**11**	–
Cash flows used in operating activities before changes in operating assets and liabilities	**(3,545)**	(405)
Net change in operating assets		
Other financial assets	**137**	(167)
Other assets	**–**	(4)
Net change in operating liabilities		
Other financial liabilities	**(3)**	165
Net cash flows used in operating activities	**(3,411)**	(411)
Cash flows from (used in) investing activities		
Acquisition of subsidiaries	**–**	(3,423)
Proceeds from disposal of associate*	**–**	112,269
Dividend received	**77,090**	–
Income from recharge agreement	**23,745**	–
Dividend pay out	**(66,733)**	–
Capital contributions to subsidiaries other than through issuance of shares	**–**	(103,600)
Placement of deposit	**(8,830)**	(2,320)
Issuance of Debt	**(22,000)**	(2,000)
Net cash flows from investing activities	**3,272**	926
Cash flows from (used in) financing activities	**–**	–
Net cash flows from (used in) financing activities	**–**	–
Effect of exchange rate changes on cash and cash equivalents	**(50)**	(116)
Net increase (decrease) in cash and cash equivalents	**(189)**	399
Cash and cash equivalents at the beginning of the year	**399**	–
Cash and cash equivalents at the end of the year	**210**	399

* The amount of proceeds from disposal of associate in 2016 is attributable to sale of minority share of JSC Bank Republic by TBCG to JSC TBC Bank.

The notes set out on pages 170 to 254 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of GEL	Note	**31 December 2017**	31 December 2016	31 December 2015
ASSETS				
Cash and cash equivalents	6	**1,431,477**	945,180	720,347
Due from other banks	7	**39,643**	24,725	11,042
Mandatory cash balances with the National Bank of Georgia	8	**1,033,818**	990,642	471,490
Loans and advances to customers	9	**8,325,353**	7,133,702	4,444,886
Investment securities available for sale	10	**657,938**	430,703	307,310
Bonds carried at amortised cost	11	**449,538**	372,956	372,092
Investments in finance leases	13	**143,836**	95,031	75,760
Investment properties	16	**79,232**	95,615	57,600
Current income tax prepayment		**19,084**	7,430	9,856
Deferred income tax asset	34	**2,855**	3,511	1,546
Other financial assets	12	**146,144**	94,627	64,317
Other assets	14	**156,651**	171,263	103,912
Premises and equipment	15	**366,913**	314,032	247,767
Intangible assets	15	**83,492**	60,957	44,344
Goodwill	17	**28,658**	28,658	2,726
Investments in Associates		**1,278**	–	–
TOTAL ASSETS		**12,965,910**	10,769,032	6,934,995
LIABILITIES				
Due to credit institutions	18	**2,620,714**	2,197,577	1,113,574
Customer accounts	19	**7,816,817**	6,454,949	4,177,931
Other financial liabilities	22	**91,753**	50,998	39,435
Current income tax liability		**447**	2,577	912
Debt securities in issue	20	**20,695**	23,508	21,714
Deferred income tax liability	34	**602**	5,646	29,244
Provisions for liabilities and charges	21	**13,200**	16,026	9,461
Other liabilities	23	**84,440**	66,739	40,627
Subordinated debt	24	**426,788**	368,381	283,648
TOTAL LIABILITIES		**11,075,456**	9,186,401	5,716,546
EQUITY				
Share capital	25	**1,605**	1,581	19,587
Share premium	25	**714,651**	677,211	407,474
Retained earnings		**1,232,865**	955,173	712,743
Group reorganisation reserve	25	**(162,166)**	(162,166)	–
Share based payment reserve	26	**9,828**	23,327	12,755
Revaluation reserve for premises		**70,045**	70,460	59,532
Revaluation reserve for available-for-sale securities		**1,730**	(3,681)	5,759
Cumulative currency translation reserve		**(7,359)**	(7,538)	(6,590)
Net assets attributable to owners		**1,861,199**	1,554,367	1,211,260
Non-controlling interest	39	**29,255**	28,264	7,189
TOTAL EQUITY		**1,890,454**	1,582,631	1,218,449
TOTAL LIABILITIES AND EQUITY		**12,965,910**	10,769,032	6,934,995

The financial statements on pages 163 to 254 were approved by the Board of Directors on 28 March 2018 and signed on its behalf by:

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

Registered No. 10029943.

The notes set out on pages 170 to 254 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of GEL	Note	2017	2016	2015
Interest income	29	**1,033,939**	766,426	649,059
Interest expense	29	**(429,924)**	(275,973)	(236,885)
Net interest income		**604,015**	490,453	412,174
Fee and commission income	30	**193,944**	142,800	113,837
Fee and commission expense	30	**(67,983)**	(52,532)	(41,546)
Net fee and commission income		**125,961**	90,268	72,291
Net insurance premiums earned		**12,633**	1,222	–
Net insurance claims incurred		**(5,860)**	(966)	–
Insurance Profit		**6,773**	256	–
Net gains from trading in foreign currencies		**87,099**	70,269	64,642
Net gains/(losses) from foreign exchange translation		**4,374**	(2,507)	2,579
Net losses from derivative financial instruments		**(36)**	(206)	(575)
Net gains from disposal of available for sale investment securities		**93**	9,293	–
Other operating income	31	**31,797**	23,236	25,883
Share of profit of associates		**909**	–	–
Other operating non-interest income		**124,236**	100,085	92,529
Provision for loan impairment	9	**(93,823)**	(49,202)	(72,791)
Provision for impairment of investments in finance lease	13	**(492)**	(558)	(967)
(Provision for)/recovery of provision for performance guarantees and credit related commitments	21	**(153)**	(771)	1,117
Provision for impairment of other financial assets	12	**(12,439)**	(2,853)	(3,351)
Impairment of investment securities available for sale		**–**	(11)	–
Operating income after provisions for impairment		**754,078**	627,667	501,002
Staff costs	32	**(203,100)**	(172,221)	(142,777)
Depreciation and amortisation	15,16	**(37,265)**	(28,082)	(26,286)
(Provision for)/recovery of provision for liabilities and charges	21	**2,495**	(2,210)	(1,102)
Administrative and other operating expenses	33	**(121,530)**	(109,475)	(82,964)
Operating expenses		**(359,400)**	(311,988)	(253,129)
Profit before tax		**394,678**	315,679	247,873
Income tax expense	34	**(34,750)**	(17,421)	(29,176)
Profit for the year		**359,928**	298,258	218,697
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Revaluation of available-for-sale investments	10	**5,489**	522	(2,436)
Gains less losses recycled to profit or loss upon disposal		**–**	(11,611)	–
Exchange differences on translation to presentation currency		**181**	(948)	(12,075)
Income tax recorded directly in other comprehensive income	34	**–**	1,649	(479)
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment		**–**	–	28,755
Income tax recorded directly in other comprehensive income	34	**(422)**	10,928	(4,319)
Other comprehensive income for the year		**5,248**	540	9,446
Total comprehensive income for the year		**365,176**	298,798	228,143
Profit is attributable to:				
– Owners of the Bank		**354,410**	299,145	218,879
– Non-controlling interest		**5,518**	(887)	(182)
Profit for the year		**359,928**	298,258	218,697
Total comprehensive income is attributable to:				
– Owners of the Bank		**359,585**	299,685	228,325
– Non-controlling interest		**5,591**	(887)	(182)
Total comprehensive income for the year		**365,176**	298,798	228,143
Earnings per share for profit attributable to the owners of the Bank:				
– Basic earnings per share	27	**6.7**	6.0	4.4
– Diluted earnings per share	27	**6.6**	5.9	4.4

The notes set out on pages 170 to 254 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

			Net assets Attributable to owners									
In thousands of GEL	Note	Share capital	Share premium	Group reorganisation reserve	Share based payments reserve	Revaluation reserve for Premises	Revaluation reserve for Available for sale securities	Cumulative currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 1 January 2015		19,576	405,658	–	4,624	35,096	8,675	5,484	532,992	1,012,105	7,371	1,019,476
Profit (loss) for the year		–	–	–	–	–	–	–	218,879	218,879	(182)	218,697
Other comprehensive income		–	–	–	–	24,436	(2,916)	(12,074)	–	9,446	–	9,446
Total comprehensive income (expense) for 2015		–	–	–	–	24,436	(2,916)	(12,074)	218,879	228,325	(182)	228,143
Share based payment accrual	26	–	–	–	8,559	–	–	–	–	8,559	–	8,559
Transaction costs recognised directly in equity		–	1,419	–	–	–	–	–	–	1,419	–	1,419
Increase in share capital arising from share based payment		12	416	–	(428)	–	–	–	–	–	–	–
Dividends declared		–	–	–	–	–	–	–	(39,128)	(39,128)	–	(39,128)
Treasury shares returned		(1)	(19)	–	–	–	–	–	–	(20)	–	(20)
Balance as of 31 December 2015		19,587	407,474	–	12,755	59,532	5,759	(6,590)	712,743	1,211,260	7,189	1,218,449
Profit (loss) for the year		–	–	–	–	–	–	–	299,145	299,145	(887)	298,258
Other comprehensive income		–	–	–	–	10,928	(9,440)	(948)	–	540	–	540
Total comprehensive income (expense) for 2016		–	–	–	–	10,928	(9,440)	(948)	299,145	299,685	(887)	298,798
Share issue		87	112,182	–	–	–	–	–	–	112,269	–	112,269
Share based payment accrual	26	–	–	–	11,783	–	–	–	–	11,783	–	11,783
Change of parent company to TBCG	25	(18,129)	156,380	(162,166)	–	–	–	–	–	(23,915)	23,915	–
Increase in share capital arising from share based payment		36	1,175	–	(1,211)	–	–	–	–	–	–	–
Dividends declared		–	–	–	–	–	–	–	(55,162)	(55,162)	–	(55,162)
Purchase and cancellation of subsidiary shares		–	–	–	–	–	–	–	(1,553)	(1,553)	(1,953)	(3,506)
Balance as of 31 December 2016		**1,581**	**677,211**	**(162,166)**	**23,327**	**70,460**	**(3,681)**	**(7,538)**	**955,173**	**1,554,367**	**28,264**	**1,582,631**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**354,410**	**354,410**	**5,518**	**359,928**
Other comprehensive income		**–**	**–**	**–**	**–**	**(415)**	**5,411**	**179**	**–**	**5,175**	**73**	**5,248**
Total comprehensive income (expense) for 2017		**–**	**–**	**–**	**–**	**(415)**	**5,411**	**179**	**354,410**	**359,585**	**5,591**	**365,176**
Share issue		**21**	**32,308**	**–**	**(24,253)**	**–**	**–**	**–**	**–**	**8,076**	**–**	**8,076**
Share based payment accrual	26	**–**	**–**	**–**	**10,754**	**–**	**–**	**–**	**–**	**10,754**	**(211)**	**10,543**
Conversion of shares	26	**3**	**5,132**	**–**	**–**	**–**	**–**	**–**	**(1,909)**	**3,226**	**(3,197)**	**29**
Dividends declared		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(74,809)**	**(74,809)**	**(1,192)**	**(76,001)**
Balance as of 31 December 2017		**1,605**	**714,651**	**(162,166)**	**9,828**	**70,045**	**1,730**	**(7,359)**	**1,232,865**	**1,861,199**	**29,255**	**1,890,454**

The notes set out on pages 170 to 254 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of GEL	Note	2017	2016	2015
Cash flows from (used in) operating activities				
Interest received		**1,000,571**	735,705	633,093
Interest paid		**(424,105)**	(273,795)	(235,157)
Fees and commissions received		**195,285**	144,247	111,922
Fees and commissions paid		**(68,036)**	(52,154)	(41,569)
Insurance premium received		**23,518**	1,591	–
Insurance claims paid		**(9,127)**	(703)	–
Income received from trading in foreign currencies		**87,099**	70,411	64,642
Other operating income received		**8,992**	8,411	18,006
Staff costs paid		**(187,520)**	(148,656)	(133,354)
Administrative and other operating expenses paid		**(112,270)**	(104,077)	(79,669)
Income tax paid		**(53,916)**	(34,279)	(48,678)
Cash flows from operating activities before changes in operating assets and liabilities		**460,491**	346,701	289,236
Net change in operating assets				
Due from other banks and mandatory cash balances with the National Bank of Georgia		**(98,586)**	(448,582)	(72,453)
Loans and advances to customers		**(1,330,105)**	(1,219,501)	(364,896)
Investment in finance lease		**(49,297)**	(11,687)	(12,994)
Other financial assets		**(38,064)**	(22,965)	(13,198)
Other assets		**73,814**	(843)	7,159
Net change in operating liabilities				
Due to other banks		**(228,486)**	265,679	(17,351)
Customer accounts		**1,329,071**	1,150,146	249,598
Other financial liabilities		**18,263**	5,724	(415)
Other liabilities and provision for liabilities and charges		**3,487**	332	1,341
Net cash flows from operating activities		**140,588**	65,004	66,027
Cash flows from (used in) investing activities				
Acquisition of investment securities available for sale	10	**(560,226)**	(143,980)	(475,417)
Proceeds from disposal of investment securities available for sale	10	**–**	11,868	–
Proceeds from redemption at maturity of investment securities available for sale	10	**345,748**	166,871	265,107
Acquisition of subsidiaries, net of cash acquired		**(273)**	(91,404)	–
Acquisition of bonds carried at amortised cost		**(307,248)**	(304,109)	(183,084)
Proceeds from redemption of bonds carried at amortised cost		**242,380**	314,231	193,416
Acquisition of premises, equipment and intangible assets	15	**(114,383)**	(50,689)	(47,815)
Proceeds from disposal of premises, equipment and intangible assets		**1,932**	1,273	1,306
Proceeds from disposal of investment property		**19,082**	7,822	22,166
Net cash flows used in investing activities		**(372,988)**	(88,117)	(224,321)
Cash flows (from) used in financing activities				
Proceeds from other borrowed funds		**1,461,191**	903,502	582,198
Redemption of other borrowed funds		**(800,333)**	(666,156)	(310,267)
Proceeds from subordinated debt		**119,859**	136,817	60,510
Redemption of subordinated debt		**(59,671)**	(90,416)	(16,763)
Proceeds from debt securities in issue		**–**	4,354	–
Redemption of debt securities in issue		**(2,123)**	(4,636)	–
Dividends paid		**(67,927)**	(54,560)	(39,128)
Acquisition of non-controlling interest in subsidiary		**–**	(3,495)	–
Issue of ordinary shares		**29**	–	–
Net cash flows from financing activities		**651,025**	225,410	276,550
Effect of exchange rate changes on cash and cash equivalents		**67,672**	22,536	69,973
Net increase in cash and cash equivalents		**486,297**	224,833	188,229
Cash and cash equivalents at the beginning of the year	6	**945,180**	720,347	532,118
Cash and cash equivalents at the end of the year	6	**1,431,477**	945,180	720,347

The notes set out on pages 170 to 254 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 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 has 154 (2016: 120; 2015: 128) 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 2017 TBCG holds 98.67% of the share capital of the Bank, thus representing the Bank's ultimate parent company. Together with the Bank and subsidiaries, TBCG makes up a group of companies (hereafter the "Group"). The Bank is a parent of a group of companies incorporated in Georgia and Azerbaijan, their primary business activities include providing banking, leasing, brokerage and card processing services to corporate and individual customers. The Group's list of companies is provided in Note 2.

The shares of TBCG ("TBCG Shares") were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange PLC's Main Market for listed securities effective on 10 August 2016 (the "Admission", Note 25). The Bank is the Group's main operating unit and it accounts for most of the Group's activities.

TBC Bank Group PLC's registered legal address is 6 St. Andrew Street, London, United Kingdom EC4A3AE. Registered number of TBC Group PLC is 10029943.

As of 31 December 2017, 31 December 2016 and 31 December 2015, 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 2017, 31 December 2016 and 31 December 2015 the Group had no ultimate controlling party.

		% of ownership interest held as of 31 December		
Shareholders	Note	**2017**	2016	2015
TBC Holdings LTD		**–**	15.19%	15.99%
Schroder Investment Management		**9.53%**	7.98%	–
JPMorgan Asset Management		**9.21%**	7.07%	–
European Bank for Reconstruction and Development		**8.38%**	12.15%	–
Mamuka Khazaradze*		**6.35%**	–	–
Badri Japaridze*		**6.23%**	–	–
Liquid Crystal International N.V. LLC		**5.78%**	5.19%	5.46%
Societe Generale SA		**-**	5.38%	-
Bank of New York (Nominees), Limited**	25	**-**	-	70.62%
Other***		**54.52%**	47.04%	7.93%
Total		**100.00%**	100.00%	100.00%

* Represents direct ownership of the shares for Mamuka Khazaradze and Badri Japaridze. Mamuka Khazaradze has beneficial ownership of 13.87% and Badri Japaridze has beneficial ownership of 6.93%, the some of which were held through TBC holding LTD in prior years.

** In 2015 all GDR holders' interests were held through Bank of New York (Nominees), Limited (the custodian).

*** Other includes individual as well as corporate shareholders.

As a result of the conversion of the Bank's shares into TBCG shares as described above and following the cancellation of GDR Programme in October 2016, the Group has no GDRs outstanding as of 31 December 2017.

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

2 Summary of Significant Accounting Policies

Basis of preparation. For the year ended 31 December 2017, the separate financial statements have been prepared of TBC Bank Group PLC. In accordance with the exemption permitted under section 408 of the Companies Act 2006, the standalone statement of comprehensive income of TBCG is not presented as part of these accounts. These consolidated financial statements are prepared as if the Group is a continuation of the pre-existing group of companies with the Bank as its ultimate parent. Comparative financial statements as of 31 December 2015 are those of the group of companies consolidated, with the Bank as its ultimate parent.

2 Summary of Significant Accounting Policies continued

The consolidated financial statements of the Group and the separate financial statements of TBC Bank Group PLC, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of 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).

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

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.

Subsidiaries and associates. The TBC Bank Group PCL holds 98.67% of the Bank as of 31 December 2017. The consolidated financial statements include the following principal subsidiaries:

	Proportion of voting rights and ordinary share capital held as of 31 December			Principal place of business or incorporation	Year of incorporation	
Company Name	**2017**	2016	2015			Industry
JSC TBC Bank	**98.67%**	98.48%	–	Tbilisi, Georgia	1992	Banking
Bank Republic Group	**–**	100.00%	–	Tbilisi, Georgia	1992	Banking
Ltd Merckhali Pirevli	**–**	100.00%	–	Tbilisi, Georgia	2009	Operating leasing
United Financial Corporation JSC	**98.67%**	98.67%	98.67%	Tbilisi, Georgia	1997	Card processing
TBC Capital LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	1999	Brokerage
TBC Leasing JSC	**99.61%**	99.61%	99.57%	Tbilisi, Georgia	2003	Leasing
TBC Kredit LLC	**75.00%**	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	**100.00%**	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
Mali LLC	**100.00%**	100.00%	100.00%	Tbilisi, Georgia	2011	Real estate management
JSC TBC Insurance	**100.00%**	100.00%	–	Tbilisi, Georgia	2014	Insurance

The consolidated financial statements include the following associates:

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

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

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

2 Summary of Significant Accounting Policies continued

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.[1]

	Proportion of voting rights and ordinary share capital held as of 31 December					
Company Name	**2017**	2016	2015	Principal place of business or incorporation	Year of incorporation	Industry
UFC International Ltd	**80.00%**	80.00%	80.00%	British Virgin Islands	2001	Investment Vehicle
TBC Capital B.V.	**90.00%**	90.00%	90.00%	Amsterdam, Netherlands	2007	Investment Vehicle
TBC Invest International Ltd	**100.00%**	100.00%	–	Tbilisi, Georgia	2016	Investment Vehicle
University Development Fund	**33.33%**	33.33%	33.33%	Tbilisi, Georgia	2007	Education
Ltd Georgian Mill Company	**100.00%**	100.00%	–	Tbilisi, Georgia	2010	Manufacturing

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 percent 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.

2 Summary of Significant Accounting Policies continued

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is 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 (ie 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 42.

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

2 Summary of Significant Accounting Policies continued

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus 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. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and 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.

Mandatory cash balances with the National Bank of Georgia. 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. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in Other Comprehensive Income ("OCI") until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from OCI to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") 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. 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 derecognised. The securities are not reclassified in the statement of financial position unless the transferee has, by contract, the right or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available for sale securities or bonds carried at amortised cost reclassified to repurchase receivables continue to be carried at fair value or amortised cost respectively in accordance with the accounting policies for these categories of assets.

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

2 Summary of Significant Accounting Policies continued

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

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

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

Bonds carried at amortised cost. 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. 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 given 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

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 remeasured 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.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the 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 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 recognised as earned over the lifetime of a respective contract. At the end of each reporting period, the provision for performance guarantee contracts are measured at the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

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

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation. 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 recognised in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognised in other comprehensive income and reduces revaluation reserve for premises and equipment accumulated in equity.

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

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

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

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

2 Summary of Significant Accounting Policies continued

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

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years; and
Leasehold improvements	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, eg its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of 2 to 15 years.

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.

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

2 Summary of Significant Accounting Policies continued

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 amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

Insurance and reinsurance receivables. Insurance and reinsurance receivables are recognised based on insurance policy terms and measured at cost. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with any impairment loss recorded in the consolidated statement of income. Reinsurance receivables primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Insurance premiums are recognised as revenue (earned premiums) proportionally over the period of coverage of respective insurance contracts. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance receivables are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract that this can be measured reliably.

Liability adequacy test. Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of recognised insurance liabilities net of related deferred acquisition costs. In performing the tests, current best estimates of future contractual cash flows, claims handling and administration costs in respect of claims, as well as investment income from assets backing such liabilities, are used. Where tests highlight a deficiency, insurance liabilities are increased with any deficiency being recognised in the consolidated statement of comprehensive income.

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 amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

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

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

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

Income taxes. Income taxes 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.

2 Summary of Significant Accounting Policies continued

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill 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 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.

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

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

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

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

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

2 Summary of Significant Accounting Policies continued

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2017 the closing rate of exchange used for translating foreign currency balances was GBP 1 = 3.5005 (2016: GBP 1 = GEL 3.2579; 2015: GBP 1 = GEL 3.5492); USD 1 = 2.5922 (2016: USD 1 = GEL 2.6468; 2015: USD 1 = GEL 2.3949); EUR 1 = 3.1044 (2016: EUR 1 = GEL 2.7940; 2015: EUR 1 = GEL 2.6169).

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

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

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

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

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

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, share based payment reserve attributable to the vested shares is transferred to share capital and share premium. When portions of a single grant vest on two or more dates the entity applies graded vesting for accounting of share based payment arrangement. Vesting period of each tranche of the grant ends when the employee owns the shares with no further service restrictions. Under graded vesting scheme the expense for earlier years is higher than for later years. Each tranche is expensed over its own service period with a credit entry being equity.

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:

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group concludes 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 thousand (2016: GEL 11,251 thousand; 2015: GEL 9,707 thousand) and additional charge for impairment of finance lease receivables of GEL 63 thousand (2016: GEL 57 thousand; 2015: GEL 37 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 (2016: GEL 2,701 thousand; 2015: GEL 3,677 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 (2016: GEL 9 thousand; 2015: GEL 2 thousand), respectively.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models employ observable market data. However, certain financial instruments are valued on the basis of valuation techniques featuring one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental.

Tax legislation. The Group is subject to corporate income taxes in several jurisdictions and the calculation of the Group's tax charge and provisions for corporate income taxes necessarily involves a degree of estimation and judgement. Refer to Note 34.

4 Adoption of New or Revised Standards and Interpretations

The adopted accounting policies are consistent with those of the previous financial year. There were no new or amended standards or interpretations that resulted in a change of the accounting policy. The new disclosures are included in Note 35 in accordance with Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

5 New Accounting Pronouncements

Minor amendments to IFRSs

The IASB has published a number of minor amendments some of which has not yet been endorsed for use in the EU. The Group has not early adopted any of the amendments effective after 31 December 2017 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

The IASB has published IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases", which have been endorsed for use in the EU.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: (i) those to be measured subsequently at amortised cost, (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI) and (iii) those to be measured subsequently at fair value through profit or loss (FVPL);
- The classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments in line with the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition;
- Investments in equity instruments are always measured at fair value. However, the management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss;
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key difference is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income;
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). In case of a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables;
- Hedge accounting requirements were amended to align more closely the accounting with the risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the Group estimated the impact of GEL 63,734 thousand on its consolidated financial statements from the adoption of the new standard on 1 January 2018. The Group plans to use modified retrospective approach and anticipated impact of adoption will result in the decrease to shareholders' equity.

IFRS 9 does not have any impact on Bank's regulatory capital and capital adequacy ratios, which are calculated using local regulatory accounting standards.

5 New Accounting Pronouncements continued

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
In thousands of GEL	IAS 39	IFRS 9		ECL*	Other	Mandatory	Voluntary	
Cash and cash equivalents	L&R	AC	**1,431,477**	491	–	–	–	**1,430,986**
Mandatory cash balances with the National Bank of Georgia	L&R	AC	**1,033,818**	–	–	–	–	**1,033,818**
Investments in debt securities	AFS	FVOCI	**656,234**	1,051	–	–	–	**655,183**
Investments in debt securities	L&R	AC	**449,538**	628	–	–	–	**448,910**
Total investments in debt securities			**1,105,772**	1,679	–	–	–	**1,104,093**
Investments in equity securities	AFS	FVOCI	**1,704**	–	–	–	–	**1,704**
Total investments in equity securities			**1,704**	–	–	–	–	**1,704**
Due from other banks	L&R	AC	**39,643**	36	–	–	–	**39,607**
Loans and advances to customers	L&R	AC	**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	FLR	AC	**143,836**	739	–	–	–	**143,097**
Total Investment in Finance Lease			**143,836**	739	–	–	–	**143,097**
Other financial assets	L&R	AC	**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**

* Positive figures mean increase in the estimated credit loss, whilst the negative figures stand for decrease in ECL.

The GEL 67.7 million increase was offset by GEL 4.0 million release of provision level for Credit related commitments and performance guarantees resulting in 63.7 million increase in total provision level.

No significant changes are expected for financial liabilities.

Impairment of financial assets

Per IFRS 9 impairment methodology, the Bank classifies its portfolio into three stages:
- Stage I – assets for which no significant increase of credit risk since initial recognition is identified;
- Stage II – assets for which significant increase in credit risk since initial recognition is identified;
- Stage III – credit-impaired exposures.

For stage I exposures the Bank creates 12 months expected credit losses, whereas for stage II and stage III lifetime expected credit losses are created.

The key impact of IFRS 9 comes from Stage II classification and incorporation of forward looking information in allowance calculation.

For the Stage II classification purposes the Bank applies both quantitative and the qualitative criteria including, but not limited to:
- 30 DPD overdue;
- downgrade of the risk category of the borrower since initial recognition;
- deterioration of the probability of default parameter above the predefined threshold.

Under IFRS 9 methodology the Bank updated its default definition criteria as well in order to make it consistent with the Bank's internal guidelines. Updated default definition includes criteria such as: (i) 90 DPD overdue, and (ii) other criteria indicating the borrower's unlikeness to repay the liabilities. For Corporate and SME business borrowers the Bank applies borrower based default definition. As for the retail and macro segments facility level default definition is utilised with additional pulling effect criteria being applied.

5 New Accounting Pronouncements continued

Another significant driver of IFRS 9 impact on allowance level is incorporation of the forward looking information (FLI). The Bank incorporates forward looking information for both individual and collective assessment. For FLI purposes the Bank defines three scenarios, which are:

- baseline (most likely);
- upside (better than most likely);
- downside (worse than most likely).

The Bank 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. Upside and downside scenarios are defined based on the framework developed by the Bank's macroeconomic unit.

The Bank 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.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. No material effect is expected on the Group due to introduction of the new standard.

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 to access 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. 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 is currently assessing the impact of the new standard on its financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately The Group is currently assessing the impact of the interpretation on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. No material effect is expected on the Group due to introduction of the new standard.

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

5 New Accounting Pronouncements continued

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 reexamine 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	**2017**	2016	2015
Cash on hand	**419,605**	402,532	320,363
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	**371,342**	135,557	121,494
Correspondent accounts and overnight placements with other banks	**571,078**	406,319	219,275
Placements with and receivables from other banks with original maturities of less than three months	**69,452**	772	59,215
Total cash and cash equivalents	**1,431,477**	945,180	720,347

97% of the correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2016: 96%; 31 December 2015: 91%).

As of 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; 31 December 2015: GEL 59,215 thousand with eight non-OECD banks).

Interest rate analysis of cash and cash equivalents is disclosed in Note 36.

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

In thousands of GEL	**2017**	2016	2015
A+	**271,366**	78,324	13,245
A	**62,434**	258,025	1
A-	**213,247**	27,997	152,044
BBB+	**3,235**	–	30,304
BBB	**383**	23,174	3,039
BBB-	**45**	464	2,656
BB+	**300**	1,147	–
BB	**224**	–	–
BB-	**15,919**	3,039	11,671
B+	**442**	–	–
B	**185**	2,288	164
Not rated	**3,298**	11,861	6,151
Total	**571,078**	406,319	219,275

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	**2017**	2016	2015
A	**–**	772	–
BBB+	**57,031**	–	–
B	**–**	–	23,769
Not rated	**12,421**	–	35,446
Total	**69,452**	772	59,215

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. As of 31 December 2017 there were no investment securities held as collateral against placements with other banks under the reverse repo agreements (31 December 2016: nil, 2015: GEL 50,200 thousand).

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 2017, 2016 and 2015.

Credit ratings of placements with other banks with original maturities of more than three months were as follows:

In thousands of GEL	**2017**	2016	2015
A	**8,632**	13,210	7,975
BBB+	**78**	79	72
BBB	**–**	5,541	–
BB-	**4,041**	801	1,507
B+	**661**	–	–
B	**1,520**	5,073	1,268
Not rated	**24,711**	21	220
Total	**39,643**	24,725	11,042

As of 31 December 2017 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 (2016: nil; 2015: nil). The total aggregated amount of these placement was GEL 23,147 thousand (2016: nil; 2015: nil) or 58% of the total amount due to other 2016: nil; 2015: nil).

As of 31 December 2017 GEL 13,121 thousand, (2016: GEL 19,511 thousand; 2015: GEL 8,711 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 42 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 36.

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 5.0%, 0.6% and (0.4%) annual interest in GEL, USD and EUR respectively on mandatory reserve with NBG in 2017 (2016: 5.0%, 0.0% and (0.4%) in GEL, USD and EUR respectively). The Group did not earn annual interest on the mandatory reserve with the NBG for year ended 31 December 2015.

In September 2017 Fitch Ratings reaffirmed Georgia's long-term foreign and local currency Issuer Default Ratings (IDRs) at "BB-" with Stable Outlooks. The issue ratings on Georgia's senior unsecured foreign- and local-currency bonds are also affirmed at "BB-". The Country Ceiling is affirmed at "BB" and the Short-term foreign-currency IDR at "B".

9 Loans and Advances to Customers

In thousands of GEL	**2017**	2016	2015
Corporate loans	**2,475,392**	2,062,229	1,500,104
Consumer loans	**2,163,425**	1,872,142	1,170,100
Mortgage loans	**2,069,728**	1,808,434	905,274
Loans to micro, small and medium enterprises	**1,844,672**	1,615,920	1,063,551
Total loans and advances to customers (before impairment)	**8,553,217**	7,358,725	4,639,029
Less: Provision for loan impairment	**(227,864)**	(225,023)	(194,143)
Total loans and advances to customers	**8,325,353**	7,133,702	4,444,886

As of 31 December 2017 loans and advances to customers carried at GEL 246,267 thousand have been pledged to local banks or other financial institutions as collateral with respect to other borrowed funds (2016: GEL 120,093 thousand; 2015: GEL 34,012 thousand).

Following the merger of Bank Republic with TBC Bank, the Group has reassessed its definition of segments as disclosed in Note 28. Some of the clients were reallocated to different segments. Relevant changes are applied to all periods presented in this report, except for the profit and loss items for the year ended 31 December 2015, as recalculation was impracticable. Therefore provision movement for the year ended 31 December 2015 is per old segmentation and contains re-segmentation effect line to adjust opening provision levels for 1 January 2016. Balance sheet amounts as at 31 December 2017, 2016 and 2015 are comparable. As per current report, micro and SME loans are combined in one MSME category. Consumer loans include all retail loans, except mortgage loans.

9 Loans and Advances to Customers continued

Movements in the provision for loan impairment during 2017 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 1 January 2017	**90,100**	**73,730**	**23,602**	**37,591**	**225,023**
Total provision for impairment during the year:	**(11,088)**	**130,333**	**384**	**21,521**	**141,150**
Provision for impairment (credited)/charged to income statement during the year	**(27,031)**	**111,922**	**(5,343)**	**14,275**	**93,823**
Recoveries of loans previously written off	**15,943**	**18,411**	**5,727**	**7,246**	**47,327**
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

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.

At year-end 2016 the Bank updated its methodology for loan loss provisioning purposes to include impairment assessment of acquired portfolios. As per the upgraded methodology, an impairment allowance is not created on the initial recognition of purchased portfolio considering that expected losses are reflected in fair value of the portfolio. For the next reporting periods, the impairment allowance is recognised if the incurred losses at the reporting date have increased compared to the level of incurred losses at the moment of acquisition.

The Bank applies updated provisioning methodology since year-end 2015. The updated methodology enables the Bank to assess impairment allowances in an accurate manner, given granular segmentation of the portfolio and the various risk parameters applied.

The credit portfolio is assessed for impairment on an individual and collective basis. For provisioning purposes, borrowers or groups of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL 2 million or more are regarded as significant and assessed individually for impairment. In order to calculate the impairment allowance for collectively assessed loan pools, the certain risk parameters are estimated, based on various statistical models.

Following the merger of Constanta Bank with TBC Bank, the Group has reassessed the segment definition as disclosed in Note 28. A few clients were reallocated to different segments. Relevant changes in the provision groups are highlighted in the table above under "Post-merger classification effect".

9 Loans and Advances to Customers continued

Movements in the provision for loan impairment during 2015 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Provision for loan impairment as of 1 January 2015	91,226	36,753	8,889	12,896	149,764
Post-merger reclassification effect	–	(2,373)	(245)	2,618	–
Total provision for impairment during the year:	22,890	31,246	7,481	34,003	95,620
Provision for impairment charged to income statement during the year	15,396	24,311	4,693	28,391	72,791
Recoveries of loans previously written off	7,494	6,935	2,788	5,612	22,829
Amounts written off during the year as uncollectible	(6,066)	(22,937)	(2,714)	(17,734)	(49,451)
Effect of translation to presentation currency	–	(256)	(276)	(1,258)	(1,790)
Provision for loan impairment as of 31 December 2015	108,050	42,433	13,135	30,525	194,143

Loans and advances to customers written off in 2015 included loans to customers in the gross amount of GEL 7,134 thousand issued in 2015, a previously issued performance guarantee of GEL 1,720 thousand which was transformed into loan in 2015 and GEL 40,597 thousand issued in previous years.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2017		31 December 2016		31 December 2015	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**4,198,386**	**49%**	3,721,450	51%	2,039,612	44%
Energy & Utilities	**719,854**	**9%**	540,116	7%	333,172	7%
Food Industry	**524,286**	**7%**	301,290	4%	255,795	6%
Real Estate	**453,415**	**5%**	252,112	3%	222,235	5%
Hospitality & Leisure	**450,741**	**5%**	319,497	4%	266,917	6%
Trade	**394,495**	**5%**	447,541	6%	232,599	5%
Pawn Shops	**279,410**	**3%**	305,031	4%	260,373	6%
Agriculture	**269,844**	**3%**	212,148	3%	157,193	3%
Construction	**233,771**	**3%**	210,888	3%	100,680	2%
Healthcare	**172,255**	**2%**	182,131	3%	131,276	3%
Automotive	**160,795**	**2%**	144,157	2%	109,556	2%
Communication	**114,032**	**1%**	45,864	1%	114,401	2%
Services	**108,186**	**1%**	109,187	1%	60,340	1%
Transportation	**96,427**	**1%**	89,467	1%	61,432	1%
Financial Services	**87,501**	**1%**	188,646	3%	85,926	2%
Metals and Mining	**84,419**	**1%**	62,464	1%	75,785	2%
Other	**205,400**	**2%**	226,736	3%	131,737	3%
Total loans and advances to customers (before impairment)	**8,553,217**	**100%**	7,358,725	100%	4,639,029	100%

In 2016, the Group reassessed the allocation of loans into the economic sectors. The Group has revised the sector split for 2015 in order to make it consistent with 2016 and 2017.

As of 31 December 2017 the Group had 142 borrowers (2016: 112 borrowers; 2015: 84 borrowers) with aggregated gross loan amounts above GEL 5,000 thousand. The total aggregated amount of these loans was GEL 2,437,750 thousand (2016: GEL 1,900,916 thousand; 2015: GEL 1,378,892 thousand) or 28.5% of the gross loan portfolio (2016: 25.8%; 2015: 29.7%).

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	–	–	**22**
Total past due but not impaired	**23,029**	**67,850**	**25,709**	**44,993**	**161,581**
Individually assessed impaired loans					
– Not overdue	39,443	–	–	2,420	**41,863**
– 1 to 30 days overdue	10,351	–	–	–	**10,351**
– 31 to 90 days overdue	4,455	–	–	–	**4,455**
– 91 to 180 days overdue	48	–	–	–	**48**
– 181 to 360 days overdue	–	–	–	–	**–**
– More than 360 days overdue	8,740	–	–	–	**8,740**
Total individually assessed impaired loans	**63,037**	**–**	**–**	**2,420**	**65,457**
Collectively assessed impaired loans					
– Not overdue	1,266	6,669	5,912	6,744	**20,591**
– 1 to 30 days overdue	668	2,605	5,097	2,897	**11,267**
– 31 to 90 days overdue	–	4,078	5,595	3,542	**13,215**
– 91 to 180 days overdue	–	28,609	2,561	10,009	**41,179**
– 181 to 360 days overdue	–	10,246	4,335	8,969	**23,550**
– More than 360 days overdue	325	7,440	2,568	11,067	**21,400**
Total collectively assessed impaired loans	**2,259**	**59,647**	**26,068**	**43,228**	**131,202**
Total loans and advances to customers (before impairment)	**2,475,392**	**2,163,425**	**2,069,728**	**1,844,672**	**8,553,217**
Total provision	**(49,626)**	**(121,538)**	**(17,577)**	**(39,123)**	**(227,864)**
Total loans and advances to customers	**2,425,766**	**2,041,887**	**2,052,151**	**1,805,549**	**8,325,353**

9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding as of 31 December 2016 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Loans to micro, small and medium enterprises	Total
Neither past due nor impaired					
– Borrowers with credit history over two years	1,279,999	1,030,204	1,203,461	836,773	**4,350,437**
– New borrowers	647,613	738,255	557,777	689,106	**2,632,751**
Total neither past due nor impaired	**1,927,612**	**1,768,459**	**1,761,238**	**1,525,879**	**6,983,188**
Past due but not impaired					
– 1 to 30 days overdue	10,369	38,214	7,565	31,904	**88,052**
– 31 to 90 days overdue	1,714	21,205	8,241	14,269	**45,429**
– 91 to 180 days overdue	–	146	–	227	**373**
– 181 to 360 days overdue	–	91	–	–	**91**
– More than 360 days overdue	2,864	28	–	–	**2,892**
Total past due but not impaired	**14,947**	**59,684**	**15,806**	**46,400**	**136,837**
Individually assessed impaired loans					
– Not overdue	101,273	–	195	2,832	**104,300**
– 1 to 30 days overdue	1,059	–	–	–	**1,059**
– 31 to 90 days overdue	7,966	–	–	–	**7,966**
– 91 to 180 days overdue	–	–	–	88	**88**
– 181 to 360 days overdue	2,455	–	34	436	**2,925**
– More than 360 days overdue	4,000	–	167	–	**4,167**
Total individually assessed impaired loans	**116,753**	**–**	**396**	**3,356**	**120,505**
Collectively assessed impaired loans					
– Not overdue	776	5,493	7,129	5,301	**18,699**
– 1 to 30 days overdue	–	1,488	2,316	1,316	**5,120**
– 31 to 90 days overdue	908	2,622	2,443	5,223	**11,196**
– 91 to 180 days overdue	–	21,779	6,569	10,074	**38,422**
– 181 to 360 days overdue	1,233	7,660	8,371	11,291	**28,555**
– More than 360 days overdue	–	4,957	4,166	7,080	**16,203**
Total collectively assessed impaired loans	**2,917**	**43,999**	**30,994**	**40,285**	**118,195**
Total loans and advances to customers (before impairment)	**2,062,229**	**1,872,142**	**1,808,434**	**1,615,920**	**7,358,725**
Total provision	**(90,100)**	**(73,730)**	**(23,602)**	**(37,591)**	**(225,023)**
Total loans and advances to customers	**1,972,129**	**1,798,412**	**1,784,832**	**1,578,329**	**7,133,702**

9 Loans and Advances to Customers continued

Analysis by credit quality of loans outstanding as of 31 December 2015 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	888,642	632,618	626,293	576,079	**2,723,632**
– New borrowers	399,615	468,811	246,968	412,391	**1,527,785**
Total neither past due nor impaired	**1,288,257**	**1,101,429**	**873,261**	**988,470**	**4,251,417**
Past due but not impaired					
– 1 to 30 days overdue	66	23,207	5,077	28,391	**56,741**
– 31 to 90 days overdue	3,718	15,285	9,803	13,272	**42,078**
– 91 to 180 days overdue	2,829	85	–	–	**2,914**
– 181 to 360 days overdue	–	53	–	–	**53**
– More than 360 days overdue	–	22	–	–	**22**
Total past due but not impaired	**6,613**	**38,652**	**14,880**	**41,663**	**101,808**
Individually assessed impaired loans					
– Not overdue	187,802	–	–	2,747	**190,549**
– 1 to 30 days overdue	10,491	–	–	5,203	**15,694**
– 31 to 90 days overdue	5,109	–	–	–	**5,109**
– 91 to 180 days overdue	940	–	–	–	**940**
– 181 to 360 days overdue	214	–	–	–	**214**
– More than 360 days overdue	350	–	–	–	**350**
Total individually assessed impaired loans	**204,906**	**–**	**–**	**7,950**	**212,856**
Collectively assessed impaired loans					
– Not overdue	228	5,933	9,524	4,053	**19,738**
– 1 to 30 days overdue	100	793	858	3,582	**5,333**
– 31 to 90 days overdue	–	1,983	1,078	1,980	**5,041**
– 91 to 180 days overdue	–	13,881	2,901	7,424	**24,206**
– 181 to 360 days overdue	–	5,967	2,692	7,980	**16,639**
– More than 360 days overdue	–	1,462	80	449	**1,991**
Total collectively assessed impaired loans	**328**	**30,019**	**17,133**	**25,468**	**72,948**
Total loans and advances to customers (before impairment)	**1,500,104**	**1,170,100**	**905,274**	**1,063,551**	**4,639,029**
Total provision	**(108,050)**	**(52,526)**	**(13,135)**	**(20,432)**	**(194,143)**
Total loans and advances to customers	**1,392,054**	**1,117,574**	**892,139**	**1,043,119**	**4,444,886**

The retail segment in Note 28 includes the following classes from the above tables: consumer and mortgage.

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 tables above provide an analysis of the loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as "neither past due nor impaired", "past due but not impaired", "individually assessed impaired loans" and "collectively assessed impaired loans". The pool of "neither past due nor impaired loans" includes exposures that are not overdue and are not classified as impaired. "Past due but not impaired" loans include overdue performing loans but with no objective evidence of impairment identified. The classification includes as well triggered loans that are not impaired because the current value of the expected cash and collateral recoveries are sufficient for full repayment. "Individually assessed impaired loans" include exposures which were assessed for impairment on an individual basis, and an ad-hoc impairment allowance was created. "Collectively assessed impaired loans" include 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.

9 Loans and Advances to Customers continued

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 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 as of 31 December 2015:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Corporate loans	1,312,561	2,810,880	187,543	64,905
Consumer loans	808,304	1,795,061	361,796	33,532
Mortgage loans	891,639	2,241,109	13,635	3,935
Loans to micro, small and medium enterprises	980,133	2,445,336	83,418	79,653
Total	**3,992,637**	**9,292,386**	**646,392**	**182,025**

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 reevaluated 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 527,498 thousand, GEL 608,058 thousand and GEL 358,907 thousand as of 31 December 2017, 2016 and 2015 respectively. These third-party guarantees are not taken into consideration when assessing the impairment allowance. Refer to Note 42 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 36. Information on related party balances is disclosed in Note 44.

10 Investment Securities Available for Sale

In thousands of GEL	**2017**	2016	2015
Corporate bonds	**328,761**	150,073	174,916
Ministry of Finance of Georgia Treasury Bills	**319,745**	241,810	33,445
Certificates of Deposit of the National Bank of Georgia	**7,728**	36,002	84,849
Georgian Government notes	**–**	1,016	998
Total debt securities	**656,234**	428,901	294,208
Corporate shares – quoted (VISA Inc)	**–**	–	9,335
Corporate shares – unquoted	**1,704**	1,802	3,767
Total investment securities available for sale	**657,938**	430,703	307,310

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 assigned by international rating agencies in September 2017). 67.6% of corporate bonds are issued by triple A rated international financial institutions, 14.8% of corporate bonds are issued by A- rated international financial institutions, 15.5% and 0.9% of corporate bonds are issued by B+ and B rated corporations respectively, whereas 1.3% is issued by two non-rated corporations. The management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 1,704 thousand (2016: GEL 1,802 thousand; 2015: GEL 3,767 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

As of 31 December 2017 investment securities available for sale carried at GEL 424,892 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2016: GEL 205,216 thousand; 2015: GEL 208,467 thousand). Refer to Note 18.

None of the debt securities available for sale are overdue or impaired.

As of 31 December 2017 the principal equity investment securities available for sale are as follows:

Name			Carrying value as of 31 December		
In thousands of GEL	Nature of business	Country of registration	**2017**	2016	2015
Visa Inc.	Card Processing	USA	**–**	–	9,335
LTD Caucasus Online	Telecommunication	Georgia	**–**	–	3,014
JSC GRDC	Property development	Netherlands Antilles	**365**	365	365
Georgian Stock Exchange	Stock exchange	Georgia	**1,004**	1,004	–
Other			**335**	433	388
Total			**1,704**	1,802	13,102

The movements in investment securities available for sale are as follows:

In thousands of GEL	Note	**2017**	2016	2015
Carrying amount as of 1 January		**430,703**	307,310	466,510
Business Combination		**–**	153,004	–
Purchases		**560,226**	143,783	475,417
Disposals		**–**	(14,679)	–
Reclassified to Bonds carried at amortised cost		**–**	–	(372,063)
Redemption at maturity		**(345,748)**	(167,115)	(265,107)
Revaluation		**5,489**	522	(2,436)
Interest income accrued	29	**43,735**	25,707	20,927
Interest income received		**(36,214)**	(17,900)	(15,938)
Impairment related to investment in equity security		**–**	(11)	–
Effect of translation to presentation currency		**(158)**	82	–
Transfer to investments in associate		**(95)**	–	–
Carrying amount as of 31 December		**657,938**	430,703	307,310

11 Bonds Carried at Amortised Cost

In thousands of GEL	**2017**	2016	2015
Ministry of Finance Treasury Bills	**424,876**	323,478	316,822
Certificates of Deposit of the National Bank of Georgia	**24,662**	43,408	39,870
Georgian Government notes	**–**	6,070	15,400
Total Bonds carried at amortised cost	**449,538**	372,956	372,092

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 September 2017).

The movements in bonds carried at amortised cost are as follows:

In thousands of GEL	Note	**2017**	2016	2015
Gross amount as of 1 January		**372,956**	372,092	–
Reclassified from available for sale securities	10	**–**	–	372,063
Purchases		**307,248**	304,109	183,084
Redemption at maturity		**(242,380)**	(314,231)	(193,416)
Interest income accrual		**32,328**	30,714	22,950
Interest income received		**(20,601)**	(19,740)	(12,589)
Effect of translation to presentation currency		**(13)**	12	–
Gross amount as of 31 December		**449,538**	372,956	372,092

For the disclosure of bonds' fair value carried at amortised cost refer to Note 42. An analysis on interest rate for bonds carried at amortised cost is disclosed in Note 36.

As of 31 December 2017 bonds carried at amortised cost of GEL 223,860 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2016: GEL 273,311 thousand; 2015: GEL 136,472 thousand). Refer to Note 18.

None of the bonds carried at amortised cost as of 31 December 2017, 31 December 2016 and 31 December 2015 were either overdue or impaired.

During 2015 the Group reclassified investment securities available for sale to bonds carried at amortised cost with carrying amount of GEL 372,063 thousand.

At the end of the reporting period, the carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

	31 December 2017		31 December 2016		31 December 2015	
In thousands of GEL	**Carrying value**	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
Certificates of Deposit of National Bank of Georgia	**–**	**–**	–	–	–	–
Ministry of Finance Treasury Bills	**101,876**	**106,837**	160,619	164,313	219,271	203,087
Government notes	**–**	**–**	6,070	6,094	12,330	12,050
Total	**101,876**	**106,837**	166,689	170,407	231,601	215,137

The income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

	Certificates of Deposit of National Bank of Georgia		Ministry of Finance Treasury Bills		Government notes	
In thousands of GEL	Income after reclassification	Gain/(loss) without reclassification	Income after reclassification	Gain/(loss) without reclassification	Income after reclassification	Gain/(loss) without reclassification
Year						
2015	13	–	10,319	–	641	–
2016	–	–	17,575	–	797	–
2017	–	–	12,668	–	142	–

11 Bonds Carried at Amortised Cost continued

In addition, for assets reclassified from available for sale category, income or loss recognised in other comprehensive income would have been as follows:

In thousands of GEL	Certificates of Deposit of National Bank of Georgia	Ministry of Finance Treasury Bills	Government notes
Year			
2015	–	(16,185)	(280)
2016	–	3,694	24
2017	–	4,961	–

12 Other Financial Assets

In thousands of GEL	**2017**	2016	2015
Receivables on credit card services and money transfers	**26,703**	24,801	15,072
Prepayments for purchase of leasing assets	**25,478**	10,628	9,390
Receivables on guarantees/letters of credit	**20,983**	18,215	16,435
Bank assurance income receivable	**15,923**	4,549	4,450
Insurance and reinsurance receivables	**15,742**	2,249	–
Trade receivable	**13,862**	2,232	1,202
Receivable on terminated leases	**8,961**	7,832	4,404
Receivables on repossessed assets disposed	**6,619**	10,603	672
Factored receivables	**6,182**	900	2,859
Rental income receivables	**4,414**	3,816	4,309
Other	**19,297**	15,462	11,416
Less: Provision for impairment	**(18,020)**	(6,660)	(5,892)
Total other financial assets	**146,144**	94,627	64,317

Movements in the provision for impairment of other financial assets during 2017 were as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2017	**4,666**	**1,994**	**6,660**
Provision for impairment during the year	**1,568**	**10,645**	**12,213**
Amounts written off during the year as uncollectible	**–**	**(1,011)**	**(1,011)**
Recovery of amounts previously written off	**–**	**189**	**189**
Foreign exchange translation gains less losses	**–**	**(31)**	**(31)**
Provision for impairment as of 31 December 2017	**6,234**	**11,786**	**18,020**

Additions less releases recorded in profit or loss for provision for impairment of other financial assets include write-off of insurance debtors in the amount of GEL 226 thousand that are included in insurance and reinsurance receivables.

Movements in the provision for impairment of other financial assets during 2016 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	–	72	72
Provision for impairment during the year	1,105	1,748	2,853
Amounts written off during the year as uncollectible	–	(2,370)	(2,370)
Recovery of amounts previously written off	–	213	213
Provision for impairment as of 31 December 2016	4,666	1,994	6,660

12 Other Financial Assets continued

Movements in the provision for impairment of other financial assets during 2015 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment as of 1 January 2015	2,573	1,657	4,230
Provision for impairment during the year	988	2,363	3,351
Amounts written off during the year as uncollectible	–	(1,721)	(1,721)
Recovery of amounts previously written off	–	32	32
Provision for impairment as of 31 December 2015	3,561	2,331	5,892

The table below illustrates the credit quality of other financial receivables:

In thousands of GEL	**2017**	2016	2015
Neither past due nor impairment			
– Receivables on credit card services and money transfers	**26,703**	24,801	15,072
– Prepayments for purchase of leasing assets	**25,478**	10,628	9,390
– Bank assurance income receivable	**15,923**	4,549	4,450
– Insurance and reinsurance receivables	**15,742**	2,249	–
– Trade receivable	**13,862**	2,232	1,202
– Receivables on repossessed assets disposed	**6,481**	5,700	534
– Factored receivables	**6,182**	900	2,859
– Rental income receivables	**4,414**	3,816	4,309
– Receivables on guarantees/letters of credit	**2,990**	1,089	939
– Other	**14,120**	9,496	9,087
Total neither past due nor impaired	**131,895**	65,460	47,842
Past due but not impaired			
– Receivables on guarantees			
– More than 90 days overdue	**16,773**	17,126	15,496
Total past due but not impaired	**16,773**	17,126	15,496
Receivables individually determined to be impaired (gross)			
– Receivables on terminated leases	**8,961**	7,832	4,404
– Less than 90 days overdue	**–**	–	–
– More than 90 days overdue	**8,961**	7,832	4,404
– Receivables on guarantees and letters of credit	**1,220**	**–**	**–**
– Less than 90 days overdue	**–**	**–**	**–**
– More than 90 days overdue	**1,220**	**–**	**–**
– Receivables on repossessed assets disposed	**138**	4,903	138
– Less than 90 days overdue	**–**	–	–
– More than 90 days overdue	**138**	4,903	138
– Other receivables	**5,177**	5,966	2,329
– Less than 90 days overdue	**–**	–	–
– More than 90 days overdue	**5,177**	5,966	2,329
Total individually impaired (gross)	**15,496**	18,701	6,871
Less impairment provision	**(18,020)**	(6,660)	(5,892)
Total other financial assets	**146,144**	94,627	64,317

12 Other Financial Assets continued

Credit rating of other financial assets neither past due nor impaired is as follows:

In thousands of GEL	**2017**	2016	2015
A+	**13,003**	2,508	2,018
A	**4,116**	14,086	8,700
BBB+	**6,265**	845	286
BB	**217**	-	-
BB-	**7**	-	-
B+	**4,332**	1,007	322
B	**726**	2,645	2,281
Not rated	**103,229**	44,369	34,235
Total	**131,895**	65,460	47,842

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 1,206 thousand (2016: GEL 2,039 thousand; 2015: GEL 1,253 thousand). The remaining assets are not collateralised.

13 Investments in Finance Lease

As of 31 December 2017 investments in finance lease of GEL 143,836 thousand (2016: GEL 95,031 thousand; 2015: GEL 75,760 thousand) are represented by leases of fixed assets excluding land and buildings.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 1 and 5 years	Total
Finance lease payments receivable as of 31 December 2017	**86,186**	**105,595**	**191,781**
Unearned finance income	**(23,720)**	**(22,727)**	**(46,447)**
Impairment loss provision	**(765)**	**(733)**	**(1,498)**
Present value of lease payments receivable as of 31 December 2017	**61,701**	**82,135**	**143,836**
Finance lease payments receivable as of 31 December 2016	65,265	56,672	121,937
Unearned finance income	(15,302)	(10,462)	(25,764)
Impairment loss provision	(678)	(464)	(1,142)
Present value of lease payments receivable as of 31 December 2016	49,285	45,746	95,031
Finance lease payments receivable as of 31 December 2015	54,546	43,091	97,637
Unearned finance income	(13,147)	(7,992)	(21,139)
Impairment loss provision	(459)	(279)	(738)
Present value of lease payments receivable at 31 December 2015	40,940	34,820	75,760

For fair values refer to Note 42.

The table below illustrates the movements in the provision for impairment of net investment in finance lease:

In thousands of GEL	**31 December 2017**	31 December 2016	31 December 2015
Provision for impairment at the beginning of the year	**1,142**	738	195
Provision for impairment during the year	**492**	558	967
Amounts written off during the year as uncollectible	**(136)**	(154)	(424)
Provision for impairment at the end of the year	**1,498**	1,142	738

13 Investments in Finance Lease continued

Credit quality of net investment in finance lease is analysed below:

In thousands of GEL	**31 December 2017**	31 December 2016	31 December 2015
Neither past due nor impaired			
– Customers with more than two year experience	**22,705**	28,084	20,612
– New customers	**90,668**	45,404	46,431
Total neither past due nor impaired	**113,373**	73,488	67,043
Past due but not impaired			
– Less than 30 days overdue	**19,047**	15,357	4,285
– 31 to 90 days overdue	**9,310**	5,101	1,694
Total past due but not impaired	**28,357**	20,458	5,979
Impaired leases			
– Not overdue	**–**	–	1,639
– 1 to 30 days overdue	**–**	–	332
– 31 days to 90 days overdue	**343**	–	33
– From 91 to 180 days	**2,204**	1,079	950
– From 181 to 360 days	**339**	966	522
– More than 360 days	**718**	182	–
Total impaired gross*	**3,604**	2,227	3,476
Total investment in finance lease	**145,334**	96,173	76,498
Impairment loss provision	**(1,498)**	(1,142)	(738)
Total net investment in finance lease	**143,836**	95,031	75,760

* Total impaired leases include both collectively and individually impaired leases

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors 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 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-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 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**

13 Investments in Finance Lease continued

The effect of collateral as of 31 December 2016:

In thousands of GEL	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	75,364	112,917	20,809	16,817
Total	**75,364**	**112,917**	**20,809**	**16,817**

The effect of collateral as of 31 December 2015:

In thousands of GEL	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	69,048	103,416	7,450	5,532
Total	**69,048**	**103,416**	**7,450**	**5,532**

14 Other Assets

In thousands of GEL	**2017**	2016	2015
Current other assets			
Inventories of repossessed collateral	**116,809**	90,873	85,216
Other inventories	**4,194**	3,973	3,666
Prepayments for other assets	**9,721**	28,660	3,134
Prepaid taxes other than income tax	**5,788**	3,326	2,659
Other debtor	**–**	35,497	–
Total current other assets	**136,512**	162,329	94,675
Non-current other assets			
Assets repossessed from terminated leases	**3,210**	2,673	4,543
Prepayments for construction in progress	**2,745**	2,445	2,578
Assets purchased for leasing purposes	**2,733**	286	865
Prepaid insurance of leasing assets	**1,884**	937	739
Other	**9,567**	2,593	512
Total non-current other assets	**20,139**	8,934	9,237
Total other assets	**156,651**	171,263	103,912

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 2017, collateral repossessed for settlement of impaired loans amounted to GEL 53 million (2016: GEL 39 million; 2015: GEL 34 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 2017, the carrying value of the inventories of repossessed collateral subjected to the repurchase agreement was GEL 11,170 thousand (2016: GEL 20,342 thousand; 2015: GEL 23,639 thousand).

15 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Land, Premises and leasehold improvements	Office and Other equipment*	Construction in progress	Total premises and equipment	Intangible Assets	Total
Cost or valuation as of 1 January 2015		142,724	130,543	35,267	308,534	55,231	363,765
Accumulated depreciation/amortisation Including accumulated impairment loss		(26,622)	(73,220)	–	(99,842)	(17,475)	(117,317)
Carrying amount as of 1 January 2015		116,102	57,323	35,267	208,692	37,756	246,448
Additions		2,470	24,167	3,841	30,478	17,337	47,815
Transfers within premises and equipment		1,717	(0)	(1,717)	(0)	–	(0)
Transfers from Investment Property, net	16	646	–	–	646	–	646
Disposals		(324)	(1,201)	(864)	(2,389)	(199)	(2,588)
Revaluation		15,249	–	13,506	28,755	–	28,755
Effect of translation to presentation currency Cost		(374)	(536)	–	(910)	(43)	(953)
Impairment charge to profit and loss		18	(311)	–	(293)	(4,982)	(5,275)
Depreciation/amortisation charge		(3,502)	(15,632)	–	(19,134)	(5,758)	(24,892)
Elimination of accumulated depreciation/amortisation on disposals		217	952	–	1,169	197	1,366
Effect of translation to presentation currency Accumulated depreciation		362	391	–	753	36	789
Carrying amount as of 31 December 2015		132,581	65,153	50,033	247,767	44,344	292,111
Cost or valuation as of 31 December 2015		162,126	152,662	50,033	364,821	67,344	432,165
Accumulated depreciation/amortisation including accumulated impairment loss		(29,545)	(87,509)	–	(117,054)	(23,000)	(140,054)
Carrying amount as of 31 December 2015		132,581	65,153	50,033	247,767	44,344	292,111
Additions		5,555	19,369	6,206	31,130	18,904	50,034
Business combination		50,049	8,260	36	58,345	6,761	65,106
Transfers within premises and equipment		3,042	–	(3,042)	–	–	–
Transfers to Repossessed assets		(298)	–	–	(298)	–	(298)
Disposals		(2,571)	(3,836)	(69)	(6,476)	(4)	(6,480)
Effect of translation to presentation currency Cost		(31)	(45)	–	(76)	(12)	(88)
Impairment charge to profit and loss		(574)	(675)	–	(1,249)	(2,043)	(3,292)
Depreciation/amortisation charge		(3,269)	(16,895)	–	(20,164)	(6,981)	(27,145)
Elimination of accumulated depreciation/amortisation on disposals		2,439	2,555	–	4,994	–	4,994
Effect of translation to presentation currency Accumulated depreciation		27	32	–	59	(12)	47
Carrying amount as of 31 December 2016		186,950	73,918	53,164	314,032	60,957	374,989
Cost or valuation as of 31 December 2016		217,299	175,636	53,164	446,099	90,950	537,049
Accumulated depreciation/amortisation including accumulated impairment loss		(30,349)	(101,718)	–	(132,067)	(29,993)	(162,060)
Carrying amount as of 31 December 2016		**186,950**	**73,918**	**53,164**	**314,032**	**60,957**	**374,989**

15 Premises, Equipment and Intangible Assets continued

In thousands of GEL	Land, Premises and leasehold improvements	Office and Other equipment*	Construction in progress	Total premises and equipment	Intangible Assets	Total
Additions	5,684	26,179	48,663	80,526	34,877	115,403
Transfers within premises and equipment	11,326	–	(11,326)	–	–	–
Transfer from investment property	1,114	–	–	1,114	–	1,114
Disposals	(2,324)	(9,638)	–	(11,962)	(88)	(12,050)
Revaluation	–	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	(5,567)	(20,096)	–	(25,663)	(10,436)	(36,099)
Elimination of accumulated depreciation/amortisation on disposals	747	8,636	–	9,383	30	9,413
Effect of translation to presentation currency Accumulated depreciation	(25)	(50)	–	(75)	57	(18)
Carrying amount as of 31 December 2017	**197,924**	**78,534**	**90,455**	**366,913**	**83,492**	**450,405**
Cost or valuation as of 31 December 2017	233,118	191,762	90,455	515,335	123,834	639,169
Accumulated depreciation/amortisation including accumulated impairment loss	(35,194)	(113,228)	–	(148,422)	(40,342)	(188,764)
Carrying amount as of 31 December 2017	**197,924**	**78,534**	**90,455**	**366,913**	**83,492**	**450,405**

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

In year 2017, in additions of construction in progress is included property repossessed from debtor in the amount of GEL 39 million.

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.

Premises were revalued to market value on 30 September 2015. The valuation was carried out by an independent firm of valuators which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. In the process of comparison, they have used three comparative analogues (registered sale and/or offer for sale), in which prices were applied adjustments based on the difference between subject assets and analogues. Most of the assets have been estimated by using the market approach/method due to the market situation, namely by existence of a sufficient number of registered sales and proposals by the date of valuation. At acquisition date valuation of Bank Republic's assets has been performed. Fair value of respective assets disclosure is below.

The management considers that the fair value has not changed significantly between 30 September 2015 and 31 December 2017.

In thousands of GEL (except for range of inputs)	Fair value as of 20 October 2016 (acquisition date)	Fair value as of 30 September 2015 (valuation date)	Valuation technique	Other key information	Unobservable inputs	Range of unobservable inputs (weighted average)
Office buildings	30,753	51,115	Sales comparison approach	Land	Price per square metre	472 – 3,432 (797)
				Buildings		601 – 6,598 (1,781)
Branches	18,645	124,069	Sales comparison approach	Land	Price per square metre	2 – 3,427 (280)
				Buildings		452 – 11,514 (2,360)

As of 31 December 2017 the carrying amount of premises would have been GEL 144,778 thousand (2016: GEL 134,352 thousand; 2015: GEL 79,952 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2017 the carrying amount of construction in progress would have been GEL 67,033 thousand (2016: GEL 30,394 thousand; 2015: GEL 27,284 thousand) had the assets been carried at cost less impairment losses.

16 Investment Properties

In thousands of GEL	Note	2017	2016	2015
Gross book value as of 1 January		**99,347**	60,648	78,699
Accumulated depreciation as of 1 January		**(3,732)**	(3,048)	(2,483)
Carrying amount as of 1 January		**95,615**	57,600	76,216
Transfer to premises and equipment	15	**(1,143)**	–	(646)
Transfer from inventories of repossessed collateral		**752**	15,935	778
Transfer to Repossessed Collateral		**(590)**	–	–
Addition from foreclosure		**943**	6,820	–
Disposals at cost		**(15,438)**	(6,892)	(18,101)
Elimination of depreciation on disposal		**259**	253	829
Depreciation charge		**(1,166)**	(937)	(1,394)
Acquisition through business combination		**–**	22,836	–
Effect of translation to presentation currency		**–**	–	(82)
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 31 December		**79,232**	95,615	57,600

As of 31 December 2017, investment properties comprised of 102 lots (2016: 62 lots; 2015: 8 lots) of land and 144 buildings (2016: 141 buildings; 2015: 59 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 85,012 thousand (2016: GEL 123,852 thousand; 2015: GEL 105,972 thousand).

For disclosure purposes a fair valuation exercise was carried out for Investment Properties as of 31 December 2017. The valuation was carried out 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 with 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 20 October 2016 (acquisition date)	Fair value as of 31 December 2017 (valuation date)	Valuation technique	Unobservable inputs	Range of unobservable inputs (weighted average)
Land	**3,398**	**29,611**	**Sales comparison approach**	**Price per square metre**	**0.05 – 1,512 (97)**
Buildings	**19,438**	**55,401**	**Sales comparison approach**	**Price per square metre**	**11 – 2,446 (798)**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, were as follows:

In thousands of GEL	2017	2016	2015
Not later than 1 year	**177**	463	186
Later than 1 year and not later than 5 years	**–**	805	–
Total operating lease payments receivable	**177**	1,268	186

17 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

	2017	2016	2015
Carrying amount as of 1 January	**28,658**	2,726	2,726
Acquisition of subsidiaries	**–**	25,932	–
Carrying amount as of 31 December	**28,658**	28,658	2,726

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	2017	2016	2015
JSC Bank Republic*	**24,166**	24,166	–
Bank Republic Retail	**11,088**	–	–
Bank Republic Corporate	**7,491**	–	–
Bank Republic MSME	**4,791**	–	–
Bank Republic Other	**796**	–	–
CGU Micro	**769**	769	769
JSC United Financial Corporation	**695**	695	695
LLC TBC Kredit	**1,262**	1,262	1,262
JSC TBC Insurance	**1,766**	1,766	–
Total carrying amount of goodwill	**28,658**	28,658	2,726

* Due to Bank Republic merger in 2017, carrying amount of goodwill was allocated across multiple CGUs of the Bank, that is 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:

	2017	2016	2015
JSC Bank Republic**			
Growth rate beyond five years of Free Cash Flow to equity	**4.17% p.a.**	4.00% p.a.	–
Pre-tax discount rate	**18.71% p.a.**	21.72% p.a.	–
CGU SME/JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	**4.17% p.a.**	4.00% p.a.	5.00% p.a.
Pre-tax discount rate	**12.01% p.a.**	14.39% p.a.	24.74% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	**4.17% p.a.**	4.00% p.a.	5.00% p.a.
Pre-tax discount rate	**18.16% p.a.**	19.18% p.a.	29.73% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	**1.3% p.a.**	4.00% p.a.	5.00% p.a.
Pre-tax discount rate	**31.35% p.a.**	28.10% p.a.	27.05% p.a.
JSC TBC Insurance			
Growth rate beyond five years of Free Cash Flow to equity	**4.17% p.a.**	4.00% p.a.	–
Pre-tax discount rate	**18.15% p.a.**	19.50% p.a.	–

** Assumptions related to JSC Bank Republic are similar for all related CGUs.

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 781,330 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 29.92% p.a.

17 Goodwill continued

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 402,679 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 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 246,759 thousand. The CGU's carrying amount would equal its value in use at a discount rate of 27.11% p.a.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Republic as of 31 December 2016 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 (2015: nil). Recoverable amount of JSC Bank Republic CGU exceeds its carrying amount by GEL 1,295,196, thousand (2015: nil). The CGU's carrying amount would equal its value in use at a discount rate of 71.58% p.a. (2015: nil).

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 (2016: nil; 2015: nil). Recoverable amount of CGU Micro/JSC Bank Constanta CGU exceeds its carrying amount by GEL 440,075 thousand (2016: GEL 284,402 thousand; 2015: GEL 156,283 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 34.60% p.a. (2016: 30.74% p.a.; 2015: 49.35% 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 (2016: nil and nil; 2015: nil and nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 17,866 thousand (2016: GEL 13,073 thousand; 2015: GEL 6,856 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 39.27% p.a. (2016: 46.36% p.a.; 2015: 119.58% 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 (2016:nil; 2015: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 36,420 thousand (2016: GEL 20,505 thousand; 2015: GEL 61,268 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 119.51% of p.a.(2016: 68.64% p.a.; 2015: 165.08% p.a.).

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC TBC Insurance had been 10 percentage points higher than the management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2016: nil; 2015: nil). Recoverable amount of JSC TBC Insurance CGU exceeds its carrying amount by GEL 51,549 thousand (2016: GEL 58,588 thousand; 2015: nil). The CGU's carrying amount would equal its value in use at a discount rate of 63.63% p.a. (2016: 62.29%; 2015: nil).

18 Due to Credit Institutions

In thousands of GEL	**2017**	2016	2015
Due to other banks			
Correspondent accounts and overnight placements	**21,777**	22,872	47,342
Deposits from banks	**64,441**	176,443	25,936
Short-term loans from banks	**–**	117,592	–
Total due to other banks	**86,218**	316,907	73,278
Other borrowed funds			
Borrowings from foreign banks and financial institutions	**1,591,778**	1,412,095	678,946
Borrowings from local banks and financial institutions	**908,271**	439,234	355,664
Borrowings from Ministry of Finance	**2,914**	4,203	5,686
Borrowings from other financial institutions	**31,533**	25,138	–
Total other borrowed funds	**2,534,496**	1,880,670	1,040,296
Total amounts due to credit institutions	**2,620,714**	2,197,577	1,113,574

As of 31 December 2017 for the purposes of maturity analysis of financial liabilities (Note 36) the above-mentioned loans are included within the amounts for which repayment is expected within 3 months.

19 Customer Accounts

In thousands of GEL	**2017**	2016	2015
State and public organisations			
– Current/settlement accounts	**810,783**	240,743	152,438
– Term deposits	**209,641**	78,990	86,828
Other legal entities			
– Current/settlement accounts	**2,207,630**	2,143,483	1,276,141
– Term deposits	**210,498**	243,582	126,042
Individuals			
– Current/demand accounts	**1,973,685**	1,618,434	944,215
– Term deposits	**2,404,580**	2,129,717	1,592,267
Total customer accounts	**7,816,817**	6,454,949	4,177,931

State and public organisations include government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	31 December 2017		31 December 2016		31 December 2015	
In thousands of GEL	**Amount**	**%**	Amount	%	Amount	%
Individual	**4,378,265**	**56%**	3,748,151	58%	2,536,482	61%
Energy & Utilities	**429,722**	**5%**	283,497	4%	152,636	4%
Financial Services	**379,772**	**5%**	501,591	8%	219,888	5%
Construction	**377,944**	**5%**	222,372	4%	118,035	3%
Transportation	**376,333**	**5%**	188,388	3%	135,356	3%
Government sector	**330,356**	**4%**	140,852	2%	172,185	4%
Services	**236,128**	**3%**	269,824	4%	115,563	3%
Trade	**209,339**	**3%**	305,022	5%	161,417	4%
Food Industry	**175,676**	**2%**	82,984	1%	52,363	1%
Hotels and Leisure	**174,777**	**2%**	104,066	2%	73,071	2%
Real Estate	**119,507**	**2%**	82,893	1%	66,773	2%
Healthcare	**106,439**	**1%**	64,493	1%	95,280	2%
Automotive	**71,628**	**1%**	53,865	1%	40,058	1%
Communication	**50,059**	**1%**	56,787	1%	48,669	1%
Agriculture	**29,199**	**0%**	37,850	1%	10,906	0%
Metals and Mining	**16,976**	**0%**	22,817	0%	16,537	0%
Other	**354,697**	**5%**	289,497	4%	162,712	4%
Total customer accounts	**7,816,817**	**100%**	6,454,949	100%	4,177,931	100%

In 2016, the Group reassessed the allocation of customer accounts per economic sectors; the classification for 2015 was revised to make it consistent with 2016 and 2017.

As of 31 December 2017 the Group had 261 customers (2016: 222 customers; 2015: 140 customers) with balances above GEL 3,000 thousand. Their aggregate balance was GEL 3,439,673 thousand (2016: GEL 2,539,513 thousand; 2015: GEL 1,432,724 thousand) or 44% of total customer accounts (2016: 39%; 2015: 34%).

As of 31 December 2017 included in customer accounts are deposits of GEL 11,040 thousand and GEL 120,406 thousand (2016: GEL 13,355 thousand and GEL 119,146 thousand; 2015: GEL 999 thousand and GEL 77,304 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 38. As of 31 December 2017, deposits held as collateral for loans to customers amounted to GEL 224,899 thousand (2016: GEL 342,365 thousand; 2015: 241,782 thousand).

Refer to Note 42 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 44.

20 Debt Securities in Issue

In thousands of GEL	Currency	**Carrying amount in GEL as of 31 December 2017**	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	**7,637**	22-Jul-19	7.3%	8.1%
Bonds issued on Georgian market	USD	**5,224**	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	**7,834**	15-Aug-18	7.8%	8.6%
Total debt securities in issue		**20,695**			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2016	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	5,312	3-Sep-17	8.4%	9.2%
Bonds issued on Georgian market	USD	5,237	15-Aug-18	7.8%	8.6%
Bonds issued on Georgian market	USD	5,198	16-May-19	8.0%	8.7%
Bonds issued on Georgian market	USD	7,761	22-Jul-19	7.3%	8.1%
Total debt securities in issue		23,508			

In thousands of GEL	Currency	Carrying amount in GEL as of 31 December 2015	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Georgian market	USD	12,220	21-Jul-16	9.0%	9.7%
Bonds issued on Georgian market	USD	4,798	3-Sep-17	8.4%	9.2%
Bonds issued on Azerbaijani market	AZN	4,696	16-Apr-16	9.0%	9.7%
Total debt securities in issue		21,714			

Refer to Note 42 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 provisions for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	**Performance guarantees**	**Credit related commitments**	**Other**	**Total**
Carrying amount as of 1 January 2015	4,912	3,266	3,720	11,898
Charges less releases recorded in profit or loss	(3,440)	2,323	1,102	(15)
Utilisation of provision	–	–	(2,422)	(2,422)
Carrying amount as of 31 December 2015	1,472	5,589	2,400	9,461
Charges less releases recorded in profit or loss	(452)	1,223	2,528	3,299
Assuming guarantees following asset purchase	909	–	–	909
Additions through Business Combinations	706	1,237	414	2,357
Carrying amount as of 31 December 2016	**2,635**	**8,049**	**5,342**	**16,026**
Charges less releases recorded in profit or loss	**(579)**	**190**	**(332)**	**(721)**
Utilisation of provision	**–**	**–**	**(2,116)**	**(2,116)**
Effect of translation to presentation currency	**11**	**–**	**–**	**11**
Carrying amount as of 31 December 2017	**2,067**	**8,239**	**2,894**	**13,200**

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Impairment allowance estimation methods differ for (i) letter of credits and guarantees and (ii) undrawn credit lines.

21 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges continued

For letter of credits and guarantees allowance estimation purposes the Bank classifies borrowers as significant and non-significant ones. Triggered significant guarantees and letter of credits are assessed for impairment on an individual basis, whereas for not triggered significant and all non-significant ones the Bank estimates allowances applying statistical risk parameters, such as credit conversion factor and loss given default.

Undrawn credit lines are classified as committed and uncommitted exposures, with impairment allowance created for committed ones. The undrawn part of the credit lines is multiplied by the respective credit conversion factor and provisioned in the similar manner as corresponding on balance sheet exposures.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year-end.

Additions less releases recorded in profit or loss for "Other" provisions does not include gross change in total reserves for insurance claims in amount of GEL 1,621 thousands (2016: GEL 318 thousand) that are included in net claims incurred. Additions less releases recorded in profit or loss for provision for impairment of credit related commitments include provision for insurance receivables in the amount of GEL 542 thousand that are included in charges less releases recorded in profit or loss for "Other" provision.

22 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	Note	**2017**	2016	2015
Trade payables		**31,497**	16,612	10,264
Security deposits for finance lease		**20,647**	8,241	6,022
Insurance Contracts Liabilities		**10,992**	486	–
Debit or credit card payables		**10,567**	12,066	12,478
Derivative financial liabilities	41	**575**	1,298	2,411
Other accrued liabilities		**17,475**	12,295	8,260
Total other financial liabilities		**91,753**	50,998	39,435

Refer to Note 42 for disclosure of the fair value of other financial liabilities.

23 Other Liabilities

Other liabilities comprise the following:

In thousands of GEL	**2017**	2016	2015
Accrued employee benefit costs	**42,497**	38,317	22,385
Taxes payable other than on income	**14,180**	16,723	11,584
Advances received	**10,350**	6,284	4,764
Other	**17,413**	5,415	1,894
Total other liabilities	**84,440**	66,739	40,627

All of the above liabilities are expected to be settled within twelve months after the year-end.

24 Subordinated Debt

As of 31 December 2017, subordinated debt comprised of:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Deutsche Investitions und Entwicklungsgesellschaft MBH	**19-Feb-08**	**15-Jul-18**	**USD**	**10,467**	**27,134**
Deutsche Investitions und Entwicklungsgesellschaft MBH	**26-Jun-13**	**15-Jun-20**	**USD**	**7,496**	**19,430**
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	**19-Dec-13**	**15-Apr-23**	**USD**	**35,577**	**92,222**
Kreditanstalt für Wiederaufbau Bankengruppe	**10-Jun-14**	**8-May-21**	**GEL**	**6,161**	**6,161**
Kreditanstalt für Wiederaufbau Bankengruppe	**4-May-15**	**8-May-21**	**GEL**	**6,737**	**6,737**
Green for Growth Fund	**18-Dec-15**	**18-Dec-25**	**USD**	**15,259**	**39,554**
European Fund for Southeast Europe	**18-Dec-15**	**18-Dec-25**	**USD**	**7,640**	**19,805**
European Fund for Southeast Europe	**15-Mar-16**	**15-Mar-26**	**USD**	**7,639**	**19,802**
Asian Development Bank (ADB)	**18-Oct-16**	**18-Oct-26**	**USD**	**50,467**	**130,822**
Private lenders	**30-Jun-17**	**30-Jun-23**	**USD**	**24,114**	**62,508**
THALES	**5-Nov-14**	**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

As of 31 December 2015, 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	10,427	24,971
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	18,729	44,855
International Financial Corporation	23-Apr-09	12-Nov-18	USD	18,716	44,823
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,466	17,880
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,373	84,715
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,162	6,162
Kreditanstalt für Wiederaufbau Bankengruppe	4-May-15	8-May-21	GEL	6,739	6,739
Green for Growth Fund	18-Dec-15	18-Dec-25	USD	14,892	35,666
European Fund for Southeast Europe	18-Dec-15	18-Dec-25	USD	7,448	17,837
Total subordinated debt					283,648

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

Refer to Note 42 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 44.

25 Share Capital

In thousands of GEL except for number of shares	Number of ordinary shares	Share capital
As of 1 January 2015	49,246,308	19,699
Share split	284,560	113
Shares issued	(1,405)	(1)
As of 31 December 2015	49,529,463	19,811
Increase in share capital arising from share based payment	525,456	210
Conversion of shares following the Tender Offer*	(895,039)	(358)
Share capital adjustment for new nominal value**	–	(18,169)
Shares issued	3,006,823	87
As of 31 December 2016	**52,166,703**	**1,581**
Shares issued	**516,140**	**16**
Scrip dividend issued	**146,903**	**5**
Share exchange	**102,121**	**3**
As of 31 December 2017	**52,931,867**	**1,605**

* 895,039 is the number of JSC TBC Bank shares that were not converted into the TBC Bank Group PLC shares

** Negative GEL 18,169 thousand is effect of nominal value adjustment whereby the nominal value of 49,159,880 TBC Bank Group PLC shares was changed from GEL 0.4 to one British Penny translated in GEL with the official exchange rate on share conversion date

On 4 March 2014, Shareholders of the Bank approved the spilt of the ordinary shares 250-for-1 and authorised the issue of additional 10,445,387 shares.

In June 2014, 19,684,322 shares of the Bank were sold in the form of Global Depositary Receipts ("GDRs") on the London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,692,308 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Bank of New York ("BNY") acted as a depositary of these shares. Each GDR represented 1 ordinary share of the Bank.

On 4 August 2016, the Group completed the Tender Offer under which 49,159,880 of the Bank's shares then outstanding or 98.21%, were converted into 49,159,880 shares of TBC Bank Group PLC (Note 1).

As of 31 December 2017 the total authorised number of ordinary shares was 52,931,867 shares (31 December 2016: 52,166,703 shares; 31 December 2015: 49,529,463 shares). Each share has a nominal value of one British Penny (31 December 2015: GEL 0.4 per share). All issued ordinary shares are fully paid and entitled to dividends.

Following the Admission (Note 1), TBCG's Directors undertook a reduction of capital in order to create distributable reserves for TBCG. The original difference between the fair value of the Bank's shares and the nominal value of TBCG's shares was credited to the merger reserve created in connection with the Tender Offer. Each TBCG share had an original (Tender Offer) nominal value of GBP 5.00 and the minimum premium amount required by the Company Act 2006 of GEL 565,030 thousand was transferred to share premium. Following the capital cut the nominal value of TBCG shares was reduced to GBP 0.01. The capital cut created a new reserve on the statement of TBCG's financial position (comprising of the reduction of the original nominal value from GBP 5.00 to GBP 0.01 per share) amounting to GEL 745,637 thousand. The reduction represents a legal and accounting adjustment and did not, in itself, have any direct impact on TBCG shares' market value. As a result of the reduction, the Group's total additional paid-in capital outstanding at the time became distributable to the shareholders and was fully reclassified to retained earnings.

These transactions were treated as a reorganisation of an existing entity that has not changed the substance of the reporting entity. The consolidated financial statements of TBCG are presented using the values from the consolidated financial statements of JSC TBC Bank. On the date that TBCG became the new parent of the Group, the statutory amounts of share capital and share premium of the Company have been recognised through an adjustment in the Statement of Changes in Equity under the heading "Change of parent company to TBCG". The resulting difference has been recognised as a component of equity under the heading ''Group reorganisation reserve''.

On 5 June 2017, at the annual general meeting TBC Bank Group PLC's shareholders agreed on a dividend of GEL 1.42 per share, based on the 2016 audited financial statements. The dividend was recorded on 9 June 2017 and on 14 July 2017 shareholders received the payment of the total GEL 74,809 dividends.

25 Share Capital continued

On 25 April 2016, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 1.09 per share, based on the 2015 audited financial statements. The dividend was recorded on 3 May 2016 and on 11 May 2016 shareholders received the payment of the total GEL 54,560 thousand dividends.

On 19 May 2015, at the annual general meeting JSC TBC Bank's shareholders agreed on a dividend of GEL 0.79 per share, based on the 2014 audited financial statements. The dividend was recorded on 26 May 2015 and on 2 June 2015 shareholders received the payment of the total GEL 39,128 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 authorised 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 percent of the shares were vested in the fourth year after being awarded. Under this compensation system the total vesting period extends to June 2019.

Under the 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 recognised for the put-options.

In 2013 the Group considered 20 June as the grant date. Based on the management's expectation of performance and service conditions, 732,000 shares have been granted and will be gradually awarded to the members of the described scheme. An external evaluator assessed the fair value per share at the grant date at GEL 13.93 adjusted for the effect of 250-for-1 share split Income and market approaches were applied for the evaluation. The market approach involved an estimate of the market capitalisation to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose 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 (ie 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.

26 Share Based Payments continued

June 2015 arrangement:

In June 2015, the Bank's Supervisory Board approved a 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.

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries, which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In GEL except for number of shares	**31 December 2017**	31 December 2016	31 December 2015
Number of unvested shares at the beginning of the period	**2,622,707**	2,756,605	803,336
Number of shares granted	**–**	–	1,908,963
Change in estimate of number of shares expected to vest based on performance conditions	**(13,100)**	(11,904)	75,016
Forfeited during the period	**–**	(35,146)	–
Number of shares vested	**(324,834)**	(86,848)	(30,710)
Number of unvested shares at the end of the period	**2,284,773**	2,622,707	2,756,605
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)	**10,543**	12,599	8,559
Decrease in equity due to utilisation of cash compensation alternative (GEL thousand)	**–**	(817)	–
Expense on cash-settled part (GEL thousand)	**5,119**	10,271	5,967
Expense recognised as staff cost during the period (GEL thousand)	**15,662**	22,053	14,526

Liability in respect of the cash-settled part of the award amounted to GEL 12,675 thousand as of 31 December 2017 (2016: GEL 13,725 thousand; 2015: GEL 6,560 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 2017 based on level of achievement of key performance indicators the management has reassessed the number of shares that will have to be issued to the participants of the share based payment system and decreased estimated number of shares to vest by 13,100 (31 December 2016: 11,904 shares; 31 December 2015: 75,016 shares).

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to the owners of the Bank by the weighted average number of ordinary shares in issue during the year.

In thousands of GEL except for number of shares	**2017**	2016	2015
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme)	**354,410**	298,130	216,400
Weighted average number of ordinary shares in issue	**52,685,702**	49,592,658	48,962,112
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**6.7**	6.0	4.4

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year:

In thousands of GEL except for number of shares	**2017**	2016	2015
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme)	**354,410**	299,037	218,227
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	**53,480,632**	50,946,636	49,607,204
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**6.6**	5.9	4.4

28 Segment Analysis

The Management Board (the "Board) is the chief operating decision maker and it reviews the Group's internal reporting in order to assess the performance and to allocate resources. Following the merger of Bank Republic with TBC Bank, the Group has reassessed its definition of segments as disclosed in this note. Some of the clients were reallocated to different segments. As per current report, micro and SME loans are combined in one MSME category. Consumer loans include all retail loans, except mortgage loans. Comparative information as of 31 December 2016 has been updated respectively. Comparative information as of 31 December 2015 has not been updated due to impracticability.

The operating segments according to the new definition are now determined 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.

For the profit and loss items for the year ended 31 December 2015 the recalculation was impracticable. The operating segments for the year ended 31 December 2015 are as follows:

- Corporate – 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 significant legal entity customers may also be assigned to the corporate segment on a discretionary basis; for example clients that the Group assessed as having strong growth potential;
- 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 of the Group as well as customers that have been granted gold-pawn loans;
- Corporate Centre and Other Operations – comprises of the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

Statement of financial position amounts as at 31 December 2017, 2016 and 2015 are comparable.

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

28 Segment Analysis continued

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 2017, 2016 or 2015.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in Note 36.

A summary of the Group's reportable segments for the years ended 31 December 2017, 2016 and 2015 is provided below:

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2017					
– Interest income	203,082	535,851	184,008	110,998	1,033,939
– interest expense	(103,707)	(118,516)	(11,661)	(196,040)	(429,924)
– Inter-segment interest income(expense)	22,489	(73,141)	(51,488)	102,140	–
– Net interest income	121,864	344,194	120,859	17,098	604,015
– Fee and commission income	30,037	140,582	20,335	2,990	193,944
– Fee and commission expense	(6,942)	(51,199)	(8,949)	(893)	(67,983)
– Net Fee and commission income	23,095	89,383	11,386	2,097	125,961
– Insurance Profit	–	–	–	6,773	6,773
– Net gains from trading in foreign currencies	38,885	22,597	26,885	(1,268)	87,099
– Net losses from foreign exchange translation	–	–	–	4,374	4,374
– Net losses from derivative financial instruments	–	–	–	(36)	(36)
– Net gains from disposal of available for sale investment securities	–	–	–	93	93
– Other operating income	13,465	12,670	1,726	3,936	31,797
– Share of profit of associates	–	–	–	909	909
– Other operating non-interest income	52,350	35,267	28,611	14,781	131,009
– Provision for loan impairment	27,031	(106,579)	(14,275)	–	(93,823)
– Provision for performance guarantees and credit related commitments	183	(261)	467	(542)	(153)
– Provision for impairment of investments in finance lease	–	–	–	(492)	(492)
– Provision for impairment of other financial assets	(7,666)	(17)	(64)	(4,692)	(12,439)
– Profit before administrative and other expenses and income taxes	216,857	361,987	146,984	28,250	754,078
– Staff costs	(25,989)	(128,331)	(31,225)	(17,555)	(203,100)
– Depreciation and amortisation	(1,438)	(29,813)	(4,972)	(1,042)	(37,265)
– Provision for liabilities and charges	–	–	–	2,495	2,495
– Administrative and other operating expenses	(7,457)	(81,356)	(15,118)	(17,599)	(121,530)
– Operating expenses	(34,884)	(239,500)	(51,315)	(33,701)	(359,400)
– Profit/(loss) before tax	181,973	122,487	95,669	(5,451)	394,678
– Income tax expense	(27,738)	(15,527)	(13,820)	22,335	(34,750)
– Profit for the year	154,235	106,960	81,849	16,884	359,928
Total gross loans and advances to customers reported	2,475,392	4,233,153	1,844,672	–	8,553,217
Total customer accounts reported	2,410,862	4,378,265	1,027,690	–	7,816,817
Total credit related commitments and performance guarantees	1,160,517	229,178	199,662	–	1,589,357

28 Segment Analysis continued

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2016					
– Interest income	160,998	386,193	141,533	77,702	766,426
– interest expense	(45,206)	(101,520)	(8,114)	(121,133)	(275,973)
– Inter-segment interest income (expense)	(22,186)	(34,056)	(36,752)	92,994	–
– Net interest income	93,606	250,617	96,667	49,563	490,453
– Fee and commission income	21,884	100,637	16,331	3,948	142,800
– Fee and commission expense	(3,977)	(42,905)	(4,689)	(961)	(52,532)
– Net Fee and commission income	17,907	57,732	11,642	2,987	90,268
– Insurance Profit	–	–	–	256	256
– Net gains from trading in foreign currencies	23,945	17,817	26,271	2,236	70,269
– Net losses from foreign exchange translation	–	–	–	(2,507)	(2,507)
– Net losses from derivative financial instruments	–	–	–	(206)	(206)
– Net gains from disposal of available for sale investment securities	–	–	–	9,293	9,293
– Other operating income	9,837	5,772	1,076	6,551	23,236
– Other operating non-interest income	33,782	23,589	27,347	15,623	100,341
– Provision for loan impairment	48,948	(73,010)	(25,140)	–	(49,202)
– Provision for performance guarantees and credit related commitments	(388)	(902)	519	–	(771)
– Provision for impairment of investments in finance lease	–	–	–	(558)	(558)
– Provision for impairment of other financial assets	(863)	(207)	(38)	(1,745)	(2,853)
– Impairment of investment securities available for sale	–	–	–	(11)	(11)
– Profit before administrative and other expenses and income taxes	192,992	257,819	110,997	65,859	627,667
– Staff costs	(23,068)	(100,888)	(28,188)	(20,077)	(172,221)
– Depreciation and amortisation	(1,062)	(21,560)	(3,507)	(1,953)	(28,082)
– Provision for liabilities and charges	–	–	–	(2,210)	(2,210)
– Administrative and other operating expenses	(5,944)	(59,365)	(12,793)	(31,373)	(109,475)
– Operating expenses	(30,074)	(181,813)	(44,488)	(55,613)	(311,988)
– Profit before tax	162,918	76,006	66,509	10,246	315,679
– Income tax expense	(24,513)	(7,407)	(10,325)	24,824	(17,421)
– Profit for the year	138,405	68,599	56,184	35,070	298,258
Total gross loans and advances to customers reported	2,062,229	3,680,576	1,615,920	–	7,358,725
Total customer accounts reported	1,875,576	3,747,775	831,598	–	6,454,949
Total credit related commitments and performance guarantees	802,971	188,574	155,275	–	1,146,820

28 Segment Analysis continued

In thousands of GEL	Corporate	Retail	Micro, small and medium enterprises	Corporate centre and other operations	Total
31 December 2015					
– Interest income	135,615	271,083	175,629	66,732	649,059
– interest expense	(31,189)	(94,656)	(11,644)	(99,396)	(236,885)
– Inter-segment interest income (expense)	(34,855)	12,828	(29,243)	51,270	–
– Net interest income	69,571	189,255	134,742	18,606	412,174
– Fee and commission income	18,397	72,242	18,619	4,579	113,837
– Fee and commission expense	(3,864)	(31,698)	(5,159)	(825)	(41,546)
– Net Fee and commission income	14,533	40,544	13,460	3,754	72,291
– Net gains from trading in foreign currencies	23,647	15,038	23,275	2,682	64,642
– Net gains from foreign exchange translation	–	–	–	2,579	2,579
– Net losses from derivative financial instruments	–	–	–	(575)	(575)
– Other operating income	13,808	2,299	1,184	8,592	25,883
– Other operating non–interest income	37,455	17,337	24,459	13,278	92,529
– Provision for loan impairment	(15,396)	(29,004)	(28,391)	–	(72,791)
– Provision for performance guarantees and credit related commitments	4,581	(4,113)	649	–	1,117
– Provision for impairment of investments in finance lease	–	–	–	(967)	(967)
– Provision for impairment of other financial assets	(561)	(735)	(705)	(1,350)	(3,351)
– Profit before administrative and other expenses and income taxes	110,183	213,284	144,214	33,321	501,002
– Staff costs	(16,947)	(69,497)	(46,909)	(9,424)	(142,777)
– Depreciation and amortisation	(1,092)	(15,295)	(8,574)	(1,325)	(26,286)
– Provision for liabilities and charges	–	–	–	(1,102)	(1,102)
– Administrative and other operating expenses	(4,879)	(46,438)	(22,243)	(9,404)	(82,964)
– Operating expenses	(22,918)	(131,230)	(77,726)	(21,255)	(253,129)
– Profit before tax	87,265	82,054	66,488	12,066	247,873
– Income tax expense	(13,384)	(11,119)	(10,297)	5,624	(29,176)
– Profit for the year	73,881	70,935	56,191	17,690	218,697
Total gross loans and advances to customers reported	1,500,104	2,075,374	1,063,551	–	4,639,029
Total customer accounts reported	1,001,341	2,536,482	640,108	–	4,177,931
Total credit related commitments and performance guarantees	446,380	132,670	79,925	–	658,975

28 Segment Analysis continued

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

In thousands of GEL	**31 December 2017**	31 December 2016	31 December 2015
Total segment assets (gross loans and advances to customers)	**8,553,217**	7,358,725	4,639,029
Provision for loan impairment	**(227,864)**	(225,023)	(194,143)
Cash and cash equivalents	**1,431,477**	945,180	720,347
Mandatory cash balances with National Bank of Georgia	**1,033,818**	990,642	471,490
Due from other banks	**39,643**	24,725	11,042
Investment securities available for sale	**657,938**	430,703	307,310
Bonds carried at amortised cost	**449,538**	372,956	372,092
Current income tax prepayment	**19,084**	7,430	9,856
Deferred income tax asset	**2,855**	3,511	1,546
Other financial assets	**146,144**	94,627	64,317
Investments in finance leases	**143,836**	95,031	75,760
Other assets	**156,651**	171,263	103,912
Premises and equipment	**366,913**	314,032	247,767
Intangible assets	**83,492**	60,957	44,344
Investment properties	**79,232**	95,615	57,600
Goodwill	**28,658**	28,658	2,726
Investments in Subsidiaries and Associates	**1,278**	–	–
Total assets per statement of financial position	**12,965,910**	10,769,032	6,934,995

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

In thousands of GEL	**31 December 2017**	31 December 2016	31 December 2015
Total segment liabilities (customer accounts)	**7,816,817**	6,454,949	4,177,931
Due to Credit institutions	**2,620,714**	2,197,577	1,113,574
Debt securities in issue	**20,695**	23,508	21,714
Current income tax liability	**447**	2,577	912
Deferred income tax liability	**602**	5,646	29,244
Provisions for liabilities and charges	**13,200**	16,026	9,461
Other financial liabilities	**91,753**	50,998	39,435
Other liabilities	**84,440**	66,739	40,627
Subordinated debt	**426,788**	368,381	283,648
Total liabilities per statement of financial position	**11,075,456**	9,186,401	5,716,546

29 Interest Income and Expense

In thousands of GEL	**2017**	2016	2015
Interest income			
Loans and advances to customers	**919,796**	688,724	582,327
Bonds carried at amortised cost	**32,328**	30,714	22,950
Investment securities available for sale (Note 10)	**43,735**	25,707	20,927
Investments in leases	**23,273**	16,566	15,217
Due from other banks	**14,807**	4,550	7,638
Other	**–**	165	–
Total interest income	**1,033,939**	766,426	649,059
Interest expense			
Customer accounts	**233,884**	154,840	137,489
Due to credit institutions	**157,122**	85,030	70,834
Subordinated debt	**36,975**	34,325	26,363
Debt securities in issue	**1,943**	1,778	2,105
Other	**–**	–	94
Total interest expense	**429,924**	275,973	236,885
Net interest income	**604,015**	490,453	412,174

In the year ended 31 December 2017 the interest accrued on impaired loans amounted to GEL 16,332 thousand (2016: 23,825 thousand; 2015: 25,756 thousand).

30 Fee and Commission Income and Expense

In thousands of GEL	**2017**	2016	2015
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
– Card operations	**82,525**	61,115	49,424
– Settlement transactions	**59,739**	43,434	31,218
– Cash transactions	**17,424**	13,013	10,930
– Guarantees issued	**15,121**	11,699	8,949
– Issuance of letters of credit	**5,735**	6,215	5,859
– Foreign exchange operations	**1,339**	1,277	1,410
– Other	**12,061**	6,047	6,047
Total fee and commission income	**193,944**	142,800	113,837
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
– Card operations	**46,360**	34,906	27,169
– Settlement transactions	**7,421**	5,795	3,904
– Guarantees received	**2,873**	2,420	3,165
– Cash transactions	**4,393**	2,633	2,707
– Self-service and POS terminal transactions	**6,436**	4,692	3,556
– Other	**500**	2,086	1,045
Total fee and commission expense	**67,983**	52,532	41,546
Net fee and commission income	**125,961**	90,268	72,291

31 Other Operating Income

In thousands of GEL	**2017**	2016	2015
Revenues from operational leasing	**6,544**	5,772	8,539
Gain from sale of investment properties	**4,353**	2,623	4,896
Gain from sale of receivables	**4,090**	58	-
Reimbursement of taxes	**2,486**	349	-
Gain from sale of inventories of repossessed collateral	**2,383**	2,382	1,836
Gain from marketing promotional services	**2,077**	-	-
Revenues from non-credit related fines	**1,408**	658	286
Revenues from sale of cash-in terminals	**1,093**	1,100	777
Gain on disposal of premises and equipment	**1,017**	208	118
Recovery from repayment of purchased impaired loans	**-**	4,995	-
Administrative fee income from international financial institutions	**-**	644	708
Gain on sale of financial asset	**-**	-	4,692
Other	**6,346**	4,447	4,031
Total other operating income	**31,797**	23,236	25,883

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 2017 was GEL 24,284 thousand (2016: GEL 26,972 thousand; 2015: GEL 9,777 thousand).

32 Staff Costs

In thousands of GEL	**2017**	2016	2015
Salaries and bonuses	**182,784**	146,840	124,676
Share based compensation	**15,662**	22,053	14,526
Other compensation cost	**4,654**	3,328	3,575
Salaries and other employee benefits	**203,100**	172,221	142,777

In 2017 the monthly average number of persons employed by the Group was 6,993 people (2016: 5,537; 2015: 5,241). Breakdown of monthly average number of employees by categories is as follows:

	2017	2016	2015
Headquarters*	**2,788**	2,243	2,084
Branches*	**3,773**	2,902	2,827
Other administrative staff **	**432**	392	330

* Under monthly average number of employees in headquarters and branches employees in JSC TBC Bank, JSC Bank Republic, JSC TBC Insurance, Bank Constanta JSC and LLC TBC Kredit's are considered.

** Employees from other subsidiaries are considered under other administrative staff.

Monthly average number of employees in TBC PLC was 10 individuals (2016: 9).

33 Administrative and Other Operating Expenses

In thousands of GEL	**2017**	2016	2015
Rent	**23,132**	18,294	16,468
Advertising and marketing services	**18,430**	13,796	11,451
Professional services	**14,332**	29,926	8,418
Intangible asset enhancement	**10,304**	7,446	6,062
Utility services	**6,067**	5,108	4,501
Taxes other than on income	**5,670**	4,699	4,598
Premises and equipment maintenance	**5,413**	3,889	2,959
Stationery and other office expenses	**4,936**	3,448	3,471
Communications and supply	**4,063**	4,183	3,433
Insurance	**2,461**	2,687	2,301
Business trip expenses	**2,021**	1,880	1,589
Security services	**1,965**	1,883	1,622
Impairment of intangible assets	**1,916**	2,043	4,982
Transportation and vehicle maintenance	**1,637**	1,386	1,328
Personnel training and recruitment	**1,444**	1,272	1,230
Loss on disposal of inventories	**1,239**	1,690	86
Charity	**1,045**	884	928
Loss on disposal of premises and equipment	**492**	423	34
Reversal of previously written-down current assets to fair value less costs to sell	**(538)**	(4,424)	(178)
Other	**15,501**	8,962	7,678
Total administrative and other operating expenses	**121,530**	109,475	82,964

Included in professional services, in the year ended 31 December 2016, are transaction costs related to the acquisition of Bank Republic, comprising GEL 8,000 thousands.

Auditors' remuneration is included within professional services expenses above and comprises:

In thousands of GEL	Audit	Audit Related	Other Services	Total
2017				
Audit of TBC Bank Group and subsidiaries annual financial statements	**1,700**	**–**	**–**	**1,700**
Review of TBC Bank Group and subsidiaries interim financial statements	**–**	**251**	**–**	**251**
Other assurance services	**–**	**–**	**231**	**231**
Total auditor's remuneration	**1,700**	**251**	**231**	**2,182**
2016				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,588	–	–	1,588
Review of TBC Bank Group and subsidiaries interim financial statements	–	360	–	360
Other assurance services	–	5	5,432	5,437
Total auditor's remuneration	1,588	365	5,432	7,385
2015				
Audit of TBC Bank Group and subsidiaries annual financial statements	1,104	–	–	1,104
Review of TBC Bank Group and subsidiaries interim financial statements	–	163	–	163
Other assurance services	–	102	231	333
Total auditor's remuneration	1,104	265	231	1,600

Included in Other assurance services as of 31 December 2016, GEL 3,797 thousands is attributable to reporting accountant fees related to listing of TBCG shared on LSE.

34 Income Taxes

Income tax expenses comprises of the following:

In thousands of GEL	**2017**	2016	2015
Current tax charge	**39,313**	36,601	29,697
Deferred tax (credit)/charge	**(4,563)**	(19,180)	(521)
Income tax expense for the year	**34,750**	17,421	29,176

The income tax rate applicable to the majority of the Group's income was 15% (2016: 15%; 2015: 15%). The income tax rate applicable to the majority of subsidiaries income ranged from 15% to 20% (2016: 15%–20%; 2015: 15%– 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	**2017**	2016	2015
Profit before tax	**394,678**	315,679	247,873
Theoretical tax charge at statutory rate (2017:15%-20%; 2016:15%-20%; 2015:15%-20%)	**59,119**	46,703	37,181
Tax effect of items which are not deductible or assessable for taxation purposes:			
– Income which is exempt from taxation	**(12,958)**	(9,638)	(7,281)
– Non-deductible expenses and other differences	**(117)**	3,706	(724)
– Effect of change in tax legislation	**(11,794)**	(24,204)	–
– Other differences	**500**	854	–
Income tax expense for the year	**34,750**	17,421	29,176

Differences between IFRS as adopted by the EU and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2016: 15%; 2015: 15%) for Georgia and 20% for Azerbaijan and United Kingdom (2016: 20%; 2015: 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 organisations, microfinance organisations and pawnshops and from 1 January 2017 for other entities. 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 2019 for commercial banks, credit unions, insurance organisations, microfinance organisations 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.

As of 31 December 2017, deferred tax assets/liabilities are remeasured to the amounts that are estimated to be utilised in the period from 1 January 2018 to 31 December 2018.

34 Income Taxes continued

In thousands of GEL	1 January 2017	(Charged)/credited to profit or loss	Charged directly to other comprehensive income	31 December 2017
Tax effect of deductible/(taxable) temporary differences and tax loss carry forward				
Premises and equipment	(5,323)	648	377	(4,298)
Loan impairment provision	(92)	2,400	–	2,401
Fair valuation of investment securities available for sale	165	483	(648)	–
Other financial assets	2,368	(104)	–	2,266
Other assets	39	(10)	–	29
Investment in leases	–	–	–	–
Investment property	(982)	640	–	(342)
Due to credit institutions	(1,295)	479	–	(816)
Subordinated debt	(85)	62	–	(23)
Other financial liabilities	197	(269)	–	(72)
Other liabilities	2,226	(575)	–	1,651
Share based payment	676	810	–	1,486
Tax loss carry forwards	(29)	–	–	(29)
Net deferred tax asset (liability)	(2,135)	4,563	(271)	2,253
Recognised deferred tax asset	3,511	(753)	–	2,855
Recognised deferred tax liability	(5,646)	5,316	(271)	(602)
Net deferred tax asset (liability)	(2,135)	4,563	(271)	2,253

In thousands of GEL	1 January 2016	(Charged)/credited to profit or loss	Credited directly to other comprehensive income	Changes due to the business combination	31 December 2016
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards					
Premises and equipment	(25,802)	11,112	11,011	(1,644)	(5,323)
Loan impairment provision	(9,167)	11,729	–	(2,574)	(92)
Fair valuation of investment securities available for sale	(1,595)	461	1,565	(267)	165
Other financial assets	5,952	(3,830)	–	246	2,368
Other assets	6,407	(5,734)	–	(634)	39
Investment in leases	(556)	556	–	–	–
Investment property	(4,247)	4,275	–	(1,010)	(982)
Due to credit institutions	(475)	(820)	–	–	(1,295)
Subordinated debt	(327)	242	–	–	(85)
Other financial liabilities	60	137	–	–	197
Other liabilities	1,311	1,146	–	(232)	2,226
Share based payment	741	(65)	–	–	676
Tax loss carry forwards	–	(29)	–	–	(29)
Net deferred tax asset (liability)	(27,698)	19,180	12,576	(6,115)	(2,135)
Recognised deferred tax asset	1,546	1,719		246	3,511
Recognised deferred tax liability	(29,244)	17,461	12,576	(6,361)	(5,646)
Net deferred tax asset (liability)	(27,698)	19,180	12,576	(6,115)	(2,135)

As of 31 December 2017, deferred tax assets/liabilities are remeasured to the amounts that are estimated to be utilised in the period from 1 January 2018 to 31 December 2018.

34 Income Taxes continued

In thousands of GEL	1 January 2015	(Charged)/credited to profit or loss	Charged directly to other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences and tax loss carry forward				
Premises and equipment	(20,040)	(1,393)	(4,369)	(25,802)
Loan impairment provision	(4,718)	(3,858)	(591)	(9,167)
Fair valuation of investment securities available for sale	(1,224)	108	(479)	(1,595)
Other financial assets	4,483	1,469	–	5,952
Other assets	4,164	2,211	32	6,407
Investment in leases	29	(585)	–	(556)
Investment property	(6,436)	2,189	–	(4,247)
Due to credit institutions	(292)	(183)	–	(475)
Subordinated debt	(259)	(68)	–	(327)
Other Financial liabilities	1,817	(1,757)	–	60
Other Liabilities	(380)	1,697	(6)	1,311
Share based payment	52	689	–	741
Net deferred tax asset (liability)	(22,804)	519	(5,413)	(27,698)
Recognised deferred tax asset	383	1,163	–	1,546
Recognised deferred tax liability	(23,187)	(644)	(5,413)	(29,244)
Net deferred tax asset (liability)	(22,804)	519	(5,413)	(27,698)

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

35 Net Debt Reconciliation

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

	Liabilities from financing activities			
In thousands of GEL	**Other borrowed funds**	**Debt Securities in Issue**	**Subordinated debt**	**Total**
Net debt at 1 January 2017	**1,880,670**	**23,508**	**368,381**	**2,272,559**
Cash flows	**519,289**	**(3,251)**	**22,837**	**538,875**
Foreign exchange adjustments	**(13,266)**	**(1,505)**	**(765)**	**(15,536)**
Other non-cash movements	**147,803**	**1,943**	**36,335**	**186,081**
Net debt at 31 December 2017	**2,534,496**	**20,695**	**426,788**	**2,981,979**

Due to the amendments being issued one year before the effective date, the Group need not provide comparative information as it applied the amendment for the first time.

36 Financial and Other Risk Management

TBC Bank Group's strong risk governance reflects the importance placed by the Board and the Group's Risks, Ethics and Compliance Committee on shaping the risk strategy and managing credit, financial and non-financial risks. All components necessary for comprehensive risk governance are embedded into risk organisation structure: enterprise risk management; credit, financial and non-financial risks management; risk reporting & supporting IT infrastructure; cross-risk analytical tools and techniques such as capital adequacy management and stress-testing. Comprehensive, transparent and prudent risk governance facilitates understanding and trust from multiple stakeholders, ensures sustainability and resiliency of the business model and positioning of risk management as 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, the Management Board governs and directs Groups' daily activities.

Both the Supervisory Board and the Management Board have established dedicated risk committees. The Risk, Ethics and Compliance Committee of Supervisory Board approves Bank's Risk Appetite, supervises risk profile and risk governance practice within the Bank while the Audit Committee is responsible for implementation of key accounting policies and facilitation of activities of internal and external auditors. The 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. The Operational Risk Committee makes decisions related to operational risk governance while the Asset-Liability Management Committee ("ALCO") is responsible for implementation of ALM policies.

The Board, the Supervisory Board and Senior Management govern risk objectives through Risk Appetite Statement ("RAS") which sets desired risk profile and respective risk limits for different economic environments. Risk Appetite ("RA") establishes monitoring and reporting responsibilities as well as escalation paths for different trigger events and limit breaches which as well prompt risk teams to establish and implement agreed mitigation actions. In order to effectively implement Risk Appetite in the Group's day-to-day operations, the RA metrics are cascaded into more granular business unit level limits. That way risk allocation is established across different segments and activities. The Board level oversight coupled with the permanent involvement of the Senior Management in TBC Group risk management ensures the clarity regarding risk objectives, intense monitoring of risk profile against risk appetite, prompt escalation of risk-related concerns and establishment of remediation actions.

The daily management of individual risks is based on the principle of the three lines of defense. While business lines are primary risk owners, risk teams assume the function of the second line defense. This role is performed through sanctioning transactions as well as tools and techniques for risk identification, analysis, measurement, monitoring and reporting. The committees are established at operational levels in charge of making transaction-level decisions that comprise of components 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 analysed 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 Organisation the below teams manage the credit, liquidity, market, operational and other non-financial risks:

- Enterprise Risk Management (ERM);
- Credit Risk Management;
- Underwriting (Credit sanctioning);
- Restructuring and Collections;
- Financial Risk Management;
- Operational Risk Management.

36 Financial and Other Risk Management continued

The strong and independent structure enables fulfillment of all the required risk management functions within the second line of defense by highly skilled professionals with a balanced mix of credentials in banking and real sectors both on the local and international markets.

In addition to the above-mentioned risk teams, the Compliance Department (reporting directly to CEO) is specifically in charge of AML and compliance risk management. As the third line of defense, the Internal Audit Department provides an independent and objective assurance and recommendations to the Group that facilitates further improvement of operations and risk management.

For the management of each significant risk, the Bank puts in place specific policies and procedures, governance tools and techniques, methodologies for risk identification, assessment and quantification. Sound risk reporting systems and IT infrastructure are important tools for efficient risk management of TBC Bank. Thus, significant emphasis and investments are made by the Bank to constantly drive the development of required solutions. Comprehensive reporting framework is in place for the Management Board, the Supervisory Board and the Board that enables intense oversight over risk developments and taking early remedial actions upon necessity.

Beyond the described risk governance components, the compensation system features one of the most significant tools for introducing incentives for staff, aligned with the Bank's long-term interests to generate sustainable risk-adjusted returns. The risk Key Performance Indicators ("KPIs") are incorporated into both the business line and the risk staff remunerations. The performance management framework differentiates risk staff incentives to safeguard the independence from business areas that they supervise and at the same time enable attraction and maintenance of qualified professionals. For that purpose, the Bank overweighs risk KPIs for risk and control staff and caps the share of variable remuneration.

Credit risk: The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to meet its obligation to settle outstanding amounts. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Maximum exposure to credit risk of on-balance sheet items equals their carrying values. For maximum exposure on off-balance sheet commitments refer to Note 38.

Credit risks include: risks arising from transactions with individual counterparties, concentration risk, currency-induced credit risks and residual risks.

- Risks arising from transactions with individual counterparties are the loss risk related to default or non-fulfillment of contracts due to deterioration in the counterparty's credit quality.
- Concentration risk is the risk related to the quality deterioration due to large exposures provided to single borrowers or a group of connected. borrowers, or loan concentration in certain economic industries.
- Currency-induced credit risks relate to risks arising from foreign currency-denominated loans in the Group's portfolio.
- Residual risks result from applying credit risk-mitigation techniques, which could not satisfy expectation in relation to received collateral.

Comprehensive risk management methods and processes are established as part of the Group's risk management framework to manage credit risk effectively. The main principles for the Group's credit risk management are: establish a prudent credit risk environment; operate under a sound credit-granting process; and maintain efficient processes for credit risk identification, measurement, control and monitoring. Respective policies and procedures establish a framework for lending decisions reflecting the Group's tolerance for credit risk. This framework includes detailed and formalised credit evaluation and collateral appraisal processes, administration and documentation, credit approval authorities at various levels, counterparty and industry concentration limits, and clearly defined roles and responsibilities of entities and staff involved in the origination, monitoring and management of credit.

Credit Approval: The Group strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The concept of three lines of defense is embedded in the credit risk assessment framework, with a clear segregation of duties among the parties involved in the credit assessment process.

The credit assessment process differs across segments, being further differentiated across various product types reflecting the different natures of these asset classes. Corporate, SME and larger retail and micro loans are assessed on an individual basis with thorough analysis of the borrower's creditworthiness and structure of the loan; whereas smaller retail and micro loans are mostly assessed in an automated way applying respective scoring models for the loan approval. Lending guidelines for business borrowers have been tailored to individual economic sectors, outlining key lending criteria and target ratios within each industry.

The Loan Approval Committees are responsible to review the credit applications and approve the credit products. Different Loan Approval Committees with clearly defined delegation authority are in place for the approval of credit exposures to Corporate, SME, Retail and Micro customers (except those products which are assessed applying scorecards). The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of respective Loan Approval Committees) ensure that the borrower and the proposed credit exposure risks are thoroughly analysed. 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.

36 Financial and Other Risk Management continued

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 encompassing individual credit exposures, overall portfolio performance and external trends that may impact the portfolio's risk profile. Early warning signals serve as an important early alert system for the detection of credit deteriorations, leading to mitigating actions.

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 of 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 primary goal of the restructuring units is to rehabilitate the borrower and return to the performing category. The sophistication and complexity of the 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 maximising collection. The specialised software is applied for early collection processes management. Specific strategies are tailored to different sub-groups of customers, reflecting respective risk levels, so that greater effort is dedicated to customers with a higher risk profile.
Dedicated recovery units manage loans with higher risk profile. Corporate and SME borrowers are transferred to a recovery unit in case of a strong probability that a material portion of the principal amount will not be paid and the main stream of recovery is no longer the borrower's cash flow. Retail and micro loans are generally transferred to the recovery unit or external collection agencies (in the case of unsecured loans) at 90 days overdue, although they may be transferred earlier if it is evident that the borrower is unable to repay the loan.

Geographical risk concentrations: Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

36 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities as of 31 December 2017 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	820,647	608,728	2,102	1,431,477
Due from other banks	27,183	8,733	3,727	39,643
Mandatory cash balances with National Bank of Georgia	1,033,818	–	–	1,033,818
Loans and advances to customers	7,960,107	67,805	297,441	8,325,353
Investment securities available for sale	657,068	–	870	657,938
Bonds carried at amortised cost	449,538	–	–	449,538
Investments in leases	143,836	–	–	143,836
Other financial assets	145,798	141	205	146,144
Total financial assets	11,237,995	685,407	304,345	12,227,747
Non-financial assets	733,417	55	4,691	738,163
Total assets	11,971,412	685,462	309,036	12,965,910
Liabilities				
Due to credit institutions	1,069,211	1,535,644	15,859	2,620,714
Customer accounts	6,499,134	694,821	622,862	7,816,817
Debt securities in issue	7,821	–	12,874	20,695
Other financial liabilities	90,649	474	630	91,753
Subordinated debt	62,508	232,263	132,017	426,788
Total financial liabilities	7,729,323	2,463,202	784,242	10,976,767
Non-financial liabilities	96,759	1,084	846	98,689
Total liabilities	7,826,082	2,464,286	785,088	11,075,456
Net balance sheet position	4,145,330	(1,778,824)	(476,052)	1,890,454
Performance guarantees	387,890	151,502	72,905	612,297
Credit related commitments	968,019	2,996	6,045	977,060

36 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities as of 31 December 2016 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	549,279	389,223	6,678	945,180
Due from other banks	5,874	18,851	–	24,725
Mandatory cash balances with National Bank of Georgia	990,642	–	–	990,642
Loans and advances to customers	6,923,037	88,616	122,049	7,133,702
Investment securities available for sale	429,985	–	718	430,703
Bonds carried at amortised cost	372,956	–	–	372,956
Investments in leases	95,031	–	–	95,031
Other financial assets	94,398	229	–	94,627
Total financial assets	9,461,202	496,919	129,445	10,087,566
Non-financial assets	676,665	29	4,772	681,466
Total assets	10,137,867	496,948	134,217	10,769,032
Liabilities				
Due to credit institutions	718,699	1,408,693	70,185	2,197,577
Customer accounts	5,421,782	530,370	502,797	6,454,949
Debt securities in issue	13,261	–	10,247	23,508
Other financial liabilities	49,092	1,286	620	50,998
Subordinated debt	–	233,657	134,724	368,381
Total financial liabilities	6,202,834	2,174,006	718,573	9,095,413
Non-financial liabilities	89,298	1,098	592	90,988
Total liabilities	6,292,132	2,175,104	719,165	9,186,401
Net balance sheet position	3,845,735	(1,678,156)	(584,948)	1,582,631
Performance guarantees	274,614	56,406	95,588	426,608
Credit related commitments	706,646	10,175	3,391	720,212

36 Financial and Other Risk Management continued

The geographical concentration of the Group's assets and liabilities as of 31 December 2015 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	509,000	199,383	11,964	720,347
Due from other banks	2,976	8,066	–	11,042
Mandatory cash balances with National Bank of Georgia	471,490	–	–	471,490
Loans and advances to customers	4,192,155	123,643	129,088	4,444,886
Investment securities available for sale	297,975	9,335	–	307,310
Bonds carried at amortised cost	372,092	–	–	372,092
Investments in leases	75,760	–	–	75,760
Other financial assets	64,302	15	–	64,317
Total financial assets	5,985,750	340,442	141,052	6,467,244
Non-financial assets	465,094	39	2,618	467,751
Total assets	6,450,844	340,481	143,670	6,934,995
Liabilities				
Due to credit institutions	408,475	637,367	67,732	1,113,574
Customer accounts	3,378,566	462,400	336,965	4,177,931
Debt securities in issue	4,798	–	16,916	21,714
Other financial liabilities	36,772	2,591	72	39,435
Subordinated debt	–	283,648	–	283,648
Total financial liabilities	3,828,611	1,386,006	421,685	5,636,302
Non-financial liabilities	78,624	834	786	80,244
Total liabilities	3,907,235	1,386,840	422,471	5,716,546
Net balance sheet position	2,543,609	(1,046,359)	(278,801)	1,218,449
Performance guarantees	234,695	1,786	6,702	243,183
Credit related commitments	401,590	13,199	1,003	415,792

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 latter within 20% of the Bank's regulatory capital. As of 31 December 2017, the Bank maintained an aggregate open currency position of 1.5% of regulatory capital (2016: 3.2%; 2015: 1.6%). The Asset-Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

36 Financial and Other Risk Management continued

Currency risk management framework is governed through the Market Risk Management Policy, market risk management procedure and relevant methodologies. Under the ICAAP framework the Bank developed methodology for allocating capital charges for FX risk following Basel guidelines. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. While managing open currency position the Group considers all provisions to be denominated in the local currency. Gross amount of currency swap deposits is included in Derivatives. Therefore total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

	As of 31 December 2017			
In thousands of GEL	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Georgian Laris	**4,814,429**	**3,767,858**	**164,521**	**1,211,092**
US Dollars	**6,475,155**	**6,299,024**	**(153,449)**	**22,682**
Euros	**816,565**	**805,153**	**(9,315)**	**2,097**
Other	**121,579**	**104,732**	**(899)**	**15,948**
Total	**12,227,728**	**10,976,767**	**858**	**1,251,819**

	As of 31 December 2016				As of 31 December 2015			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Georgian Laris	3,484,840	2,478,715	9,394	1,015,519	2,442,850	1,646,864	3,430	799,416
US Dollars	5,821,734	5,848,266	(8,905)	(35,437)	3,507,494	3,428,146	(71,933)	7,415
Euros	690,728	697,568	(13)	(6,853)	466,450	499,702	32,715	(537)
Other	90,264	70,864	(288)	19,112	50,436	61,531	36,285	25,190
Total	10,087,566	9,095,413	188	992,341	6,467,230	5,636,243	497	831,484

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 a 3-year look-back period. During the years ended 31 December 2017, 2016 and 2015, the sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**As of 31 December 2017**	As of 31 December 2016	As of 31 December 2015
Maximum loss (VAR, 99% confidence level)	**(2,206)**	(1,184)	(449)
Maximum loss (VAR, 95% confidence level)	**(1,462)**	(868)	(285)

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 repricing characteristics of such assets and liabilities.

The Bank's deposits and the most loans are at fixed interest rates, while a portion of the Bank's borrowings is at a floating interest rate. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. The management also believes that the Bank's interest rate margins provide a reasonable buffer to mitigate the effect of possible adverse interest rate movements.

36 Financial and Other Risk Management continued

The table below summarises the Group's exposure to interest rate risks. It illustrates the aggregated amounts of the Group's financial assets and liabilities at the amounts monitored by the management and categorised by the earlier of contractual interest repricing 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 2017					
Total financial assets	**3,427,631**	**2,449,029**	**1,069,488**	**5,302,335**	**12,248,483**
Total financial liabilities	**4,094,978**	**2,634,518**	**1,038,842**	**3,229,143**	**10,997,481**
Net interest sensitivity gap as of 31 December 2017	**(667,347)**	**(185,489)**	**30,646**	**2,073,192**	**1,251,002**
31 December 2016					
Total financial assets	2,708,398	1,798,079	1,013,269	4,606,991	10,126,737
Total financial liabilities	3,601,798	2,009,575	1,021,631	2,501,580	9,134,584
Net interest sensitivity gap as of 31 December 2016	(893,400)	(211,496)	(8,362)	2,105,411	992,153
31 December 2015					
Total financial assets	1,582,056	1,366,740	686,171	2,847,165	6,482,132
Total financial liabilities	1,758,301	1,310,725	678,569	1,903,627	5,651,222
Net interest sensitivity gap as of 31 December 2015	(176,245)	56,015	7,602	943,538	830,910

As of 31 December 2017, if interest rates had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 7.4 million higher (2016: GEL 9.5 million; 2015 GEL 6,748 thousand;), mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 6,131 thousand higher (2016: GEL 1,516 thousand; 2015: GEL 927 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 7.4 million lower (2016: GEL 9.5 million; 2015: GEL 777 thousand), mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,861 thousand lower (2016: GEL 2,118 thousand; 2015: GEL 911 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.

The Bank calculates the impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios. Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes.

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

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

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

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

36 Financial and Other Risk Management continued

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank 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 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 106.5%, 110.5% and 106.4%, at 31 December 2017, 2016 and 2015 respectively.

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

In addition, TBC Bank has a ***liquidity contingency plan***, which is part of the Bank's overall prudential liquidity policy and is designed to ensure that TBC Bank is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

The Bank calculates its liquidity ratios on a daily basis in accordance with the NBG's requirements.

The Liquidity Ratio: The limit is set by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months.

NBG LCR is calculated by reference to the qualified liquid assets divided by 30-day cash net outflows defined as per NBG guidelines. The limit is set by the NBG as per total LCR also by currency (GEL, FX). To promote larisation in the country of Georgia, NBG defines a 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:

	2017	2016	2015
Average Liquidity Ratio	**32.5%**	30.8%	34.4%
Total Liquidity Coverage Ratio	**112,72%**	–	–
GEL Liquidity Coverage Ratio	**95.62%**	–	–
FX Liquidity Coverage Ratio	**122.88%**	–	–

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 interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

36 Financial and Other Risk Management continued

***Maturity analysis*:** The table below summarises the maturity analysis of the Group's financial liabilities, based on remaining undiscounted contractual obligations as of 31 December 2017. 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 2017 is as follows:

In thousands of GEL	**Less than 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Due to Credit institutions	**1,142,865**	**418,613**	**1,167,970**	**151,417**	**2,880,865**
Customer accounts – individuals	**2,532,039**	**1,378,835**	**522,104**	**40,727**	**4,473,705**
Customer accounts – other	**3,068,027**	**192,852**	**133,236**	**80,976**	**3,475,091**
Other financial liabilities	**82,685**	**8,808**	**260**	**–**	**91,753**
Subordinated debt	**5,060**	**74,191**	**198,042**	**346,703**	**623,996**
Debt securities in issue	**504**	**8,814**	**13,687**	**–**	**23,005**
Gross settled forwards	**176,822**	**5,509**	**–**	**–**	**182,331**
Performance guarantees	**55,914**	**241,460**	**306,788**	**8,135**	**612,297**
Financial guarantees	**52,256**	**122,014**	**74,457**	**155**	**248,882**
Other credit related commitments	**728,178**	**–**	**–**	**–**	**728,178**
Total potential future payments for financial obligations	**7,844,350**	**2,451,096**	**2,416,544**	**628,113**	**13,340,103**

The maturity analysis of financial liabilities as of 31 December 2016 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	837,188	310,447	1,103,959	168,271	2,419,865
Customer accounts – individuals	2,147,015	1,284,067	360,609	39,578	3,831,269
Customer accounts – other	2,287,043	238,551	134,293	74,180	2,734,067
Other financial liabilities	46,971	2,883	1,144	–	50,998
Subordinated debt	4,853	29,510	238,224	360,551	633,138
Debt securities in issue	616	6,584	22,745	–	29,945
Gross settled forwards	16,084	3,641	369	–	20,094
Performance guarantees	60,552	154,616	210,595	845	426,608
Financial guarantees	117,994	102,311	50,657	140	271,102
Other credit related commitments	449,110	–	–	–	449,110
Total potential future payments for financial obligations	5,967,426	2,132,610	2,122,595	643,565	10,866,196

The maturity analysis of financial liabilities as of 31 December 2015 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	518,915	148,380	520,673	24,181	1,212,149
Customer accounts – individuals	1,346,154	889,799	348,627	23,859	2,608,439
Customer accounts – other	1,419,830	119,695	98,836	23,739	1,662,100
Other financial liabilities	36,099	1,196	2,140	–	39,435
Subordinated debt	2,284	54,214	215,062	132,636	404,196
Debt securities in issue	480	17,996	5,061	–	23,537
Gross settled forwards	94,368	1,967	–	–	96,335
Performance guarantees	16,023	88,666	137,944	550	243,183
Financial guarantees	75,707	65,959	26,836	131	168,633
Other credit related commitments	247,159	–	–	–	247,159
Total potential future payments for financial obligations	3,757,019	1,387,872	1,355,179	205,096	6,705,166

36 Financial and Other Risk Management continued

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.

As of 31 December 2017 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	1,431,477	–	–	–	1,431,477
Due from other banks	32,845	3,071	3,727	–	39,643
Mandatory cash balances with National Bank of Georgia	1,033,818	–	–	–	1,033,818
Loans and advances to customers	1,031,608	1,767,797	3,438,180	2,087,768	8,325,353
Investment securities available for sale	657,938	–	–	–	657,938
Bonds carried at amortised cost	81,859	105,956	216,177	45,546	449,538
Finance lease receivables	22,896	38,526	82,414	–	143,836
Other financial assets	110,604	22,207	13,333	–	146,144
Total financial assets	**4,403,045**	**1,937,557**	**3,753,831**	**2,133,314**	**12,227,747**
Liabilities					
Due to Credit institutions	1,137,076	351,381	990,480	141,777	2,620,714
Customer accounts	844,123	136,821	–	6,835,873	7,816,817
Debt securities in issue	47	7,778	12,870	–	20,695
Other financial liabilities	82,685	8,808	260	–	91,753
Subordinated debt	3,471	49,694	97,372	276,251	426,788
Total financial liabilities	**2,067,402**	**554,482**	**1,100,982**	**7,253,901**	**10,976,767**
Credit related commitments and performance guarantees					
Performance guarantees	2,067	–	–	–	2,067
Financial guarantees	8,239	–	–	–	8,239
Other credit related commitments	105,268	–	–	–	105,268
Credit related commitments and performance guarantees	115,574	–	–	–	115,574
Net liquidity gap as of 31 December 2017	**2,220,069**	**1,383,075**	**2,652,849**	**(5,120,587)**	**1,135,406**
Cumulative gap as of 31 December 2017	**2,220,069**	**3,603,144**	**6,255,993**	**1,135,406**	

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

36 Financial and Other Risk Management continued

As of 31 December 2016 the analysis by expected maturities may be as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 years	Total
Assets					
Cash and cash equivalents	945,180	–	–	–	945,180
Due from other banks	4,417	5,210	5,544	9,554	24,725
Mandatory cash balances with National Bank of Georgia	990,642	–	–	–	990,642
Loans and advances to customers	1,119,128	1,481,095	2,949,227	1,584,252	7,133,702
Investment securities available for sale	430,703	–	–	–	430,703
Bonds carried at amortised cost	123,763	94,250	128,201	26,742	372,956
Finance lease receivables	18,770	30,600	45,661	–	95,031
Other financial assets	64,328	10,595	19,704	–	94,627
Total financial assets	3,696,931	1,621,750	3,148,337	1,620,548	10,087,566
Liabilities					
Due to Credit institutions	796,148	260,046	986,857	154,526	2,197,577
Customer accounts	723,340	154,513	–	5,577,096	6,454,949
Debt securities in issue	145	5,277	18,086	–	23,508
Other financial liabilities	46,971	2,883	1,144	–	50,998
Subordinated debt	3,333	4,893	125,174	234,981	368,381
Total financial liabilities	1,569,937	427,612	1,131,261	5,966,603	9,095,413
Credit related commitments and performance guarantees					
Performance guarantees	2,635	–	–	–	2,635
Financial guarantees	8,049	–	–	–	8,049
Other credit related commitments	45,854	–	–	–	45,854
Credit related commitments and performance guarantees	56,538	–	–	–	56,538
Net liquidity gap as of 31 December 2016	2,070,456	1,194,138	2,017,076	(4,346,055)	935,615
Cumulative gap as of 31 December 2016	2,070,456	3,264,594	5,281,670	935,615	

36 Financial and Other Risk Management continued

As of 31 December 2015 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	720,347	–	–	–	720,347
Due from other banks	1,290	1,059	–	8,693	11,042
Mandatory cash balances with National Bank of Georgia	471,490	–	–	–	471,490
Loans and advances to customers	697,228	950,170	1,907,830	889,658	4,444,886
Investment securities available for sale	307,310	–	–	–	307,310
Bonds carried at amortised cost	86,357	113,248	145,720	26,767	372,092
Finance lease receivables	16,555	24,444	34,761	–	75,760
Other financial assets	41,544	5,704	17,069	–	64,317
Total financial assets	2,342,121	1,094,625	2,105,380	925,118	6,467,244
Liabilities					
Due to Credit institutions	513,415	114,093	462,636	23,430	1,113,574
Customer accounts	346,674	27,885	–	3,803,372	4,177,931
Debt securities in issue	32	16,916	4,766	–	21,714
Other financial liabilities	36,099	1,196	2,140	–	39,435
Subordinated debt	1,303	33,042	145,566	103,737	283,648
Total financial liabilities	897,523	193,132	615,108	3,930,539	5,636,302
Credit related commitments and performance guarantees					
Performance guarantees	1,472	–	–	–	1,472
Financial guarantees	5,589	–	–	–	5,589
Other credit related commitments	36,982	–	–	–	36,982
Credit related commitments and performance guarantees	44,043	–	–	–	44,043
Net liquidity gap as of 31 December 2015	1,400,555	901,493	1,490,272	(3,005,421)	786,899
Cumulative gap as of 31 December 2015	1,400,555	2,302,048	3,792,320	786,899	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-1 months), (0-3 months), (0-6 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimate is based on statistical methods applied to historic information on the fluctuations of customer account balances.

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 2018" by the World Bank (WB) and International Financing Corporation (IFC), ranking as the 9th 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 a 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.

GDP growth stood at 5.0% YoY growth in 2017. Growth was broad based across different sectors of the economy and was mostly driven by construction, trade and repairs, real estate, transport and communications sectors.

36 Financial and Other Risk Management continued

Economic recovery in almost all trading partner countries of Georgia continues to underpin growth in export, tourism and remittances inflows. Exports of goods went up by 29.1% YoY in 2017, growth was diversified across different regions. Exports increased most to CIS countries (+60.0% YoY), exports continued to grow to EU (+13.0% YoY) as well as to other countries (+12.2% YoY). Imports of goods also went up by 9.4%, making the balance of trade in goods worsen slightly by 1.4% YoY in 2017.

Tourism inflows went up by an estimated 28.0% YoY with the total number of visitors exceeding 7.5 million. Sharp growth in tourism revenues have a sizeable positive impact on Georgia's Current Account balance.

Remittance inflows increased by 19.8% YoY in 2017, with remittances up by 15.1% YoY from EU and 15.6% YoY from CIS countries. Growth of remittances from other countries stood at 31.3% YoY. In the latter group of countries Israel and Turkey had the highest contribution to growth as remittances from these countries went up by 96.1% YoY and 25.6% YoY, respectively.

Given the positive trend in external inflows, CA balance improved markedly, in the first 9 months of 2017 CA deficit as a % of GDP stood at 7.1% compared to the 11.2% over the same period last year.

Annual CPI inflation peaked in June, 2017 at 7.1% and declined slightly to 6.7% by the end of 2017. Increased excise taxes in the beginning of 2017, higher oil prices and depreciation of the nominal effective exchange rate of GEL were among the factors that kept inflation close to 7% by the end of the year. To address above target inflation, NBG increased policy rate by 0.25 PP from 7% to 7.25% in December, 2017. Overall, in 2017 NBG raised policy rate by 0.75 PP, from 6.5% in the beginning of 2017 to 7.25% by the end of 2017.

Fiscal deficit narrowed from 3.9% in 2016 to an estimated 3.8% in 2017, in line with the government's strategy to gradually bring down the budget deficit below 3% over the medium term. Reduction in budget deficit mostly reflected better than expected growth of tax revenues as well as more prudent approach towards current spending. Budget project for 2018 envisages further reduction of budget deficit to c. 3% of GDP, which should further strengthen the fiscal position of the country.

37 Management of Capital

The Group's objectives in terms of capital management are to maintain appropriate levels of capital to support the business strategy, meet regulatory and stress testing-related requirements and safeguard the Group's ability to continue as a going concern. Additionally, the Group's capital management objectives entail ensuring that the Bank complies with the capital requirements set by the Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. The compliance with capital adequacy ratios set by the NBG is monitored monthly with the reports outlining their calculation and are reviewed and signed by the Bank's CFO and Deputy CFO.

The Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2015, 2016 and 2017.

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 countercyclical capital buffer is currently 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;
- A net stress buffer will be introduced based on stress testing results provided by the Group;
- A General Risk-assessment Programme (GRAPE) buffer defined by the regulator, will be 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 I Capital adequacy ratio

Under the NBG Basel I capital requirements set by the NBG in 2017 banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the minimum level of 9.6% and a ratio of Tier 1 capital to risk weighted assets above the minimum level of 6.4%. No additional add-ons are in place. In mid-2015, the NBG removed previously established 3% capital add-on. 2017 is the last phase for Basel I and will be ruled out fully from January 2018.

The regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

37 Management of Capital continued

In thousands of GEL	2017
Share capital	**575,140**
Retained earnings and other disclosed reserves	**937,041**
General loan loss provisions (up to 1.25 % of risk–weighted assets)	**171,791**
Less intangible assets	**(103,072)**
Less Investments into subsidiary companies and capital of other banks	**(55,138)**
Less Investments in the capital of the resident banks	**–**
Subordinated debt (included in regulatory capital)	**375,813**
Total regulatory capital	**1,901,575**
Risk-weighted exposures	
Credit risk-weighted assets (including off-balance obligations)	**10,191,259**
Currency Induced Credit Risk	**3,638,814**
Minus general and special reserves	**(217,643)**
Risk-weighted assets	**13,612,430**
Tier 1 Capital adequacy ratio	**8.2%**
Total Capital adequacy ratio	**14.0%**

The breakdown of the Bank's assets into the carrying amounts based on the NBG accounting rules and relevant risk-weighted exposures as of the end of 2017 are given in the tables below:

In thousands of GEL	2017	
Risk-weighted Exposures	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	**3,547,937**	**259,870**
Gross Loans and accrued interests	**8,609,951**	**11,979,513**
Repossessed assets	**58,530**	**58,530**
Fixed assets and intangible assets	**486,160**	**383,087**
Other assets	**271,091**	**251,573**
Total	**12,973,669**	**12,932,573**
Total Off-balance sheet	**1,820,064**	**897,500**
Minus general and special reserves	**(217,643)**	**(217,643)**
Total Amount	**14,576,090**	**13,612,430**

Under the previous capital requirements set by the NBG banks had to maintain a ratio of regulatory capital to risk-weighted assets ("statutory capital ratio") above the minimum level of 10.8% and a ratio of Tier 1 capital to risk-weighted assets above the minimum level of 7.2%. No additional add-ons are in place. In mid-2015, the NBG removed previously established 3% capital add-on. The regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of GEL	2016	2015
Share capital	567,089	443,987
Retained earnings and other disclosed reserves	770,345	568,604
General loan loss provisions (up to 1.25 % of risk–weighted assets)	115,559	87,037
Less intangible assets	(53,074)	(41,080)
Less Investments into subsidiary companies and capital of other banks	(61,855)	(50,840)
Less Investments in the capital of the resident banks	(351,040)	–
Subordinated debt (included in regulatory capital)	342,653	173,652
Total regulatory capital	1,329,677	1,181,360
Risk-weighted exposures		
Credit risk-weighted assets (including off-balance obligations)	6,750,917	5,304,184
Currency Induced Credit Risk	2,855,296	2,056,062
Minus general and special reserves	(205,968)	(205,131)
Risk-weighted assets	9,400,245	7,155,115
Tier 1 Capital adequacy ratio	10.9%	11.0%
Total Capital adequacy ratio	14.1%	16.5%

37 Management of Capital continued

The breakdown of the Bank's assets into the carrying amounts based on the NBG accounting rules and relevant risk-weighted exposures as of the end of 2016 and 2015 are given in the tables below:

In thousands of GEL	2016	
Risk weighted Exposures	Carrying Value	RW amount
Cash, cash equivalents, interbank deposits and securities	2,372,263	163,294
Gross loans and accrued interests	5,979,125	8,427,081
Repossessed assets	46,441	46,441
Fixed assets and intangible assets	328,184	275,110
Other assets	620,428	278,394
Total	9,346,441	9,190,320
Total off-balance sheet	875,585	415,893
Minus general and special reserves	(205,968)	(205,968)
Total amount	10,016,058	9,400,245

In thousands of GEL	2015	
Risk-weighted Exposures	Carrying Value	RW amount
Cash, cash equivalents, interbank deposits and securities	1,794,873	85,733
Gross loans and accrued interests	4,671,693	6,445,027
Repossessed assets	44,253	44,253
Fixed assets and intangible assets	306,368	265,288
Other assets	177,111	151,073
Total	6,994,298	6,991,374
Total off-balance sheet	696,260	368,872
Minus general and special reserves	(205,131)	(205,131)
Total Amount	7,485,427	7,155,115

NBG Basel II Capital adequacy ratio

By the end of 2017 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 236.

The table below presents the capital adequacy ratios as well as minimum requirements set by the NBG.

In thousands of GEL	**2017**
Tier 1 Capital	**1,437,218**
Tier 2 Capital	**448,069**
Regulatory capital	**1,885,287**
Risk-weighted Exposures	
Credit risk-weighted exposures	**9,754,146**
Risk-weighted exposures for market risk	**28,802**
Risk-weighted exposures for operational risk	**970,241**
Total risk-weighted exposures	**10,753,189**
Minimum Tier 1 ratio	**10.3%**
Tier 1 Capital adequacy ratio	**13.4%**
Minimum total capital adequacy ratio	**12.9%**
Total Capital adequacy ratio	**17.5%**

37 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:

	2017	
In thousands of GEL	**Carrying Value**	**RW amount**
Cash, cash equivalents, Interbank Exposures and Securities	**3,510,760**	**1,275,017**
Gross loans and accrued interests,	**8,233,132**	**6,798,464**
Repossessed assets	**58,530**	**58,530**
Fixed assets and intangible assets	**437,878**	**264,768**
Other assets	**553,176**	**713,096**
Minus general provision, penalty and interest provision	**(30,862)**	**(30,862)**
Total	**12,762,614**	**9,079,013**
Total Off-balance	**1,919,565**	**675,133**
Market Risk	**28,802**	**28,802**
Operational Risk	**517,462**	**970,241**
Total Amount	**15,228,443**	**10,753,189**

For years ended 31 December 2016 and 31 December 2015 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	2015
Tier 1 Capital	1,041,270	953,403
Tier 2 Capital	380,751	245,705
Regulatory capital	1,422,021	1,199,108
Risk-weighted exposures		
Credit risk-weighted exposures	9,399,140	7,005,711
Risk-weighted exposures for market risk	45,689	18,651
Risk-weighted exposures for operational risk	576,628	452,089
Total risk-weighted exposures	10,021,457	7,476,451
Minimum Tier 1 ratio	8.5%	8.5%
Tier 1 Capital adequacy ratio	10.4%	12.8%
Minimum total capital adequacy ratio	10.5%	10.5%
Total Capital adequacy ratio	14.2%	16.0%

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 and 2015 are given in the tables below:

	2016	
In thousands of GEL	Carrying Value	RW amount
Cash, cash equivalents, Interbank Exposures and Securities	2,397,259	1,086,262
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	5,771,369	7,149,145
Repossessed assets	46,441	46,441
Fixed assets and intangible assets	328,184	273,176
Other assets	647,261	536,747
Minus general provision, penalty and interest provision	(45,534)	(45,534)
Total	9,144,980	9,046,237
Total Off-balance	978,221	352,903
Market Risk	45,689	45,689
Operational Risk	403,640	576,628
Total Amount	10,572,530	10,021,457

37 Management of Capital continued

	2015	
In thousands of GEL	Carrying Value	RW amount
Cash, cash equivalents, Interbank Exposures and Securities	1,857,283	570,748
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	4,442,340	5,555,538
Repossessed assets	44,253	44,253
Fixed assets and intangible assets	306,368	334,472
Other assets	179,535	219,572
Minus general provision, penalty and interest provision	(36,630)	(36,630)
Total	6,793,149	6,687,953
Total Off-balance	789,224	317,758
Market Risk	18,651	18,651
Operational Risk	316,462	452,089
Total Amount	7,917,486	7,476,451

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	**2017**	2016	2015
Tier 1 capital			
Share capital	**524,807**	524,778	427,061
Retained earnings and disclosed reserves	**1,254,331**	983,387	725,498
Less: Goodwill	**(26,892)**	(26,892)	(2,726)
Non-controlling interest	**4,735**	4,383	7,189
Total tier 1 capital	**1,756,981**	1,485,656	1,157,022
Tier 2 capital			
Revaluation reserves	**64,489**	59,240	58,701
General Reserve	**109,372**	88,300	59,770
Subordinated debt (included in tier 2 capital)	**355,944**	323,087	173,652
Total tier 2 capital	**529,805**	470,627	292,123
Total capital	**2,286,786**	1,956,283	1,449,145
Credit risk-weighted assets (including off-balance obligations)	**8,749,752**	7,064,035	4,781,605
Less: General Reserve	**(118,492)**	(136,721)	(134,373)
Market Risk	**40,803**	46,484	32,605
Total Risk-weighted assets	**8,672,063**	6,973,798	4,679,837
Minimum Tier 1 ratio	**4.0%**	4.0%	4.0%
Tier 1 Capital adequacy ratio	**20.3%**	21.3%	24.7%
Minimum total capital adequacy ratio	**8.0%**	8.0%	8.0%
Total Capital adequacy ratio	**26.4%**	28.1%	31.0%

Following the Basel I guidelines the General Reserve is defined by the management as the minimum among the following:
a) IFRS provisions created on loans without impairment trigger event;
b) 2% of loans without impairment trigger event;
c) 1.25% of total RWA (Risk-weighted Assets).

37 Management of Capital continued

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2017, 2016, 2015 are provided in the tables below:

In thousands of GEL	**2017**	
Risk-weighted Exposures	**Carrying Value**	**RW amount**
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	**3,609,132**	**214,353**
Gross loans and accrued interests	**8,553,217**	**6,885,960**
Repossessed assets	**116,809**	**116,809**
Fixed assets and intangible assets	**476,027**	**449,136**
Other assets	**409,876**	**409,876**
Total	**13,165,061**	**8,076,134**
Total Off-balance	**1,907,457**	**673,618**
Less: Loan loss provision minus General Reserve	**(118,492)**	**(118,492)**
Market Risk	**40,803**	**40,803**
Total Amount	**14,994,829**	**8,672,063**

In thousands of GEL	2016	
Risk weighted Exposures	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	2,762,892	133,527
Gross loans and accrued interests	7,358,725	5,609,312
Repossessed assets	90,873	90,873
Fixed assets and intangible assets	401,174	374,282
Other assets	373,118	373,118
Total	10,986,782	6,581,112
Total Off-balance	1,290,813	482,923
Less: Loan loss provision minus General Reserve	(136,721)	(136,721)
Market Risk	46,484	46,484
Total Amount	12,187,358	6,973,798

In thousands of GEL	2015	
Risk weighted Exposures	Carrying Value	RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,882,281	103,406
Gross loans and accrued interests	4,639,029	3,757,464
Repossessed assets	85,216	85,216
Fixed assets and intangible assets	294,837	292,111
Other assets	227,775	227,775
Total	7,129,138	4,465,972
Total Off-balance	849,295	315,633
Less: Loan loss provision minus General Reserve	(134,373)	(134,373)
Market Risk	32,605	32,605
Total Amount	7,876,665	4,679,837

38 Contingencies and Commitments

Legal proceedings. When determining the level of provision to be set up with regards to such claims, or the amount (not subject to provisioning) to be disclosed in the financial statements, the management seeks both internal and external professional advice. The management believes that the provision recorded in these financial statements is adequate and the amount (not subject to provisioning) need not be disclosed as it will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The management's interpretation of the legislation as applied to the Group's transactions and activity may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the review period. To respond to the risks, the Group has engaged external tax specialists to carry out periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as of 31 December 2017, 2016 and 2015 no provision for potential tax liabilities has been recorded.

38 Contingencies and Commitments continued

Operating lease commitments: Where the Group is the lessee, as of 31 December 2017, the future minimum lease payments under non-cancellable operating leases over the next year amounted to GEL 6,479 thousand (31 December 2016: 5,016 thousand; 31 December 2015: 4,891 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 the drastic devaluation of Azerbaijani Manat in February and December 2015. The Group was in compliance with all other covenants as of 31 December 2017 and 31 December 2016. The Group was in compliance with all covenants as of 31 December 2015.

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

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

Performance guarantees: Performance guarantees are contracts that provide compensation in case of another party failing 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 (ie: 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 credit related commitments and performance guarantees are as follows:

In thousands of GEL	**2017**	2016	2015
Performance guarantees issued	**612,297**	426,608	243,183
Financial guarantees issued	**141,963**	116,260	71,999
Undrawn credit lines	**728,178**	449,110	247,159
Letters of credit issued	**106,919**	154,842	96,634
Total credit related commitments and performance guarantees (before provision)	**1,589,357**	1,146,820	658,975
Provision for performance guarantees	**(2,067)**	(2,635)	(1,472)
Provision for credit related commitments and financial guarantees	**(8,239)**	(8,049)	(5,589)
Total credit related commitments and performance guarantees	**1,579,051**	1,136,136	651,914

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 2017 were GEL 389,148 thousand (2016: GEL 169,831 thousand; 2015: GEL 136,867 thousand).

Fair value of credit related commitments and financial guarantees were GEL 8,239 thousand as of 31 December 2017 (2016: GEL 8,049 thousand; 2015: GEL 5,589 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	**2017**	2016	2015
Georgian Laris	**618,544**	409,498	259,749
US Dollars	**734,970**	545,621	319,941
Euros	**166,304**	101,892	44,874
Other	**69,539**	89,809	34,411
Total	**1,589,357**	1,146,820	658,975

Capital expenditure commitments. As of 31 December 2017, the Group has contractual capital expenditure commitments amounting to GEL 7,816 thousand (2016: GEL 5,665 thousand; 2015: GEL 6,771 thousand).

39 Non-Controlling Interest

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 attributable to non-controlling interest**	**Accumulated non-controlling interest in the subsidiary**	**Dividends paid to non-controlling interest during the year**
TBC Bank JSC including:	**1.33%**	**5,518**	**29,255**	**–**
TBC Leasing JSC	**0.39%**	**14**	**70**	**–**
TBC Kredit LLC	**25%**	**275**	**4,165**	**–**
United Financial Corporation JSC	**1.33%**	**63**	**500**	**–**

The summarised financial information of these subsidiaries was as follows as of 31 December 2017:

In thousands of GEL	**Current assets**	**Non-current assets**	**Current liabilities**	**Non-current liabilities**	**Revenue**	**Profit**	**Total compre-hensive income**	**Cash flows**
TBC Bank JSC	**6,490,075**	**6,447,122**	**8,830,604**	**2,258,231**	**850,450**	**362,429**	**367,678**	**466,249**
TBC Leasing JSC	**111,169**	**87,928**	**95,988**	**85,262**	**15,236**	**3,436**	**3,436**	**2,450**
TBC Kredit LLC	**19,771**	**20,319**	**11,858**	**20,636**	**5,172**	**1,098**	**1,098**	**(3,631)**
United Financial Corporation JSC	**6,353**	**5,136**	**1,255**	**45**	**12,708**	**4,733**	**4,733**	**40**

The following table provides information about each subsidiary with a non-controlling interest as of 31 December 2016:

In thousands of GEL	Proportion of non-controlling interest's voting rights held	Profit /(loss) attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Bank JSC including:	1.52%	(887)	28,264	–
TBC Leasing JSC	0.39%	9	56	–
TBC Kredit LLC	25%	(2,865)	3,890	–
United Financial Corporation JSC	1.34%	50	436	–

The summarised financial information of these subsidiaries was as follows as of 31 December 2016:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive income (expense)	Cash flows
TBC Bank JSC	5,492,825	5,268,934	7,105,314	2,084,656	679,912	302,491	303,031	224,421
TBC Leasing JSC	71,484	49,140	54,930	51,283	11,566	2,316	2,316	(5,425)
TBC Kredit LLC	20,649	19,458	16,034	17,867	8,367	(11,461)	(11,461)	(4,291)
United Financial Corporation JSC	9,271	5,800	9,114	45	11,979	3,737	3,737	(1,243)

39 Non-Controlling Interest continued

The following table provides information about each subsidiary with non-controlling interest as of 31 December 2015:

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	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	0.43%	8	47	–
TBC Kredit LLC	25%	(250)	6,756	–
United Financial Corporation JSC	1.33%	60	386	–

The summarised financial information of these subsidiaries was as follows as of 31 December 2015:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive income/ (expense)	Cash flows
TBC Leasing JSC	69,642	36,323	29,607	65,378	9,511	1,960	1,960	8,769
TBC Kredit LLC	41,703	36,053	57,773	1,509	15,319	(1,002)	(1,002)	7,290
United Financial Corporation JSC	5,453	6,470	675	73	12,512	4,476	4,476	1,908

40 Offsetting Financial Assets and Financial Liabilities

As of 31 December 2017, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
ASSETS						
Other financial assets:						
– Receivables on credit card services and money transfers	**29,308**	**2,605**	**26,703**	**–**	**–**	**26,703**
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**29,308**	**2,605**	**26,703**	**–**	**–**	**26,703**
LIABILITIES						
Other financial liabilities:						
– Payables on credit card services and money transfers	**12,964**	**2,605**	**10,359**	**–**	**–**	**10,359**
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**12,964**	**2,605**	**10,359**	**–**	**–**	**10,359**

40 Offsetting Financial Assets and Financial Liabilities continued

As of 31 December 2016, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Other financial assets:						
– Receivables on credit card services and money transfers	26,959	2,158	24,801	–	–	24,801
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	26,959	2,158	24,801	–	–	24,801
LIABILITIES						
Other financial liabilities:						
– Payables on credit card services and money transfers	14,563	2,158	12,405	–	–	12,405
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	14,563	2,158	12,405	–	–	12,405

As of 31 December 2015, financial instruments subject to offsetting, enforceable master netting and similar arrangements were as follows:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Cash and cash equivalents						
– Reverse repo	47,768	–	47,768	47,768	–	–
Other financial assets:						
– Receivables on credit card services and money transfers	17,821	2,749	15,072	–	–	15,072
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	65,589	2,749	62,840	47,768	–	15,072
LIABILITIES						
Other financial liabilities:						
– Payables on credit card services and money transfers	15,300	2,749	12,551	–	–	12,551
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	15,300	2,749	12,551	–	–	12,551

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangements have been netted-off in these financial statements and the instrument has been presented as either asset or liability at a fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

41 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	**2017**	2016	2015
Fair value of gross settled currency swaps, included in other financial assets or due from banks	**1,767**	508	605
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**(909)**	(320)	(108)
Fair value of Interest rate swaps, included in other financial liabilities	**(267)**	(1,055)	(2,303)
Total	**591**	(867)	(1,806)

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.

	2017		2016		2015	
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 (-)	**–**	**(166,326)**	–	(13,125)	–	(85,754)
– USD receivable on settlement (+)	**12,877**	**–**	4,220	–	13,821	–
– GEL payable on settlement (-)	**–**	**(1,360)**	–	(1,604)	–	(10,427)
– GEL receivable on settlement (+)	**165,881**	**–**	10,998	–	13,857	–
– EUR payable on settlement (-)	**–**	**(9,315)**	–	(3,214)	–	(1,309)
– EUR receivable on settlement (+)	**–**	**–**	3,201	–	34,024	–
– Other payable on settlement (-)	**–**	**(2,247)**	–	(2,150)	–	(1,963)
– Other receivable on settlement (+)	**1,348**	**–**	1,862	–	38,248	–
Fair value of foreign exchange forwards and gross settled currency swaps	**180,106**	**(179,248)**	20,281	(20,093)	99,950	(99,453)
Net fair value of foreign exchange forwards and gross settled currency swaps	**858**		188		497	

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 expires in November 2018. At the reporting date the fair value of interest rate swaps was estimated to be negative GEL 267 thousand (2016: negative GEL 1,055 thousand; 2015: negative GEL 2,303 thousand).

Information on related party balances is disclosed in Note 44.

42 Fair Value Disclosures

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

	31 December 2017				31 December 2016				31 December 2015			
In thousands of GEL	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE												
FINANCIAL ASSETS												
Investment securities available for sale												
– Government notes	**–**	**–**	**–**	**–**	–	1,016	–	1,016	–	998	–	998
– Certificates of Deposits of National Bank of Georgia	**–**	**7,728**	**–**	**7,728**	–	36,002	–	36,002	–	84,849	–	84,849
– Corporate bonds	**–**	**328,761**	**–**	**328,761**	–	150,073	–	150,073	–	174,916	–	174,916
– Ministry of Finance Treasury Bills	**–**	**319,745**	**–**	**319,745**	–	241,810	–	241,810	–	33,445	–	33,445
– Corporate shares (Visa Inc)	**–**	**–**	**–**	**–**	–	–	–	–	9,335	–	–	9,335
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	**–**	**1,767**	**–**	**1,767**	–	508	–	508	–	604	–	604
NON-FINANCIAL ASSETS												
– Premises and leasehold improvements	**–**	**–**	**283,905**	**283,905**	–	–	229,549	229,549	–	–	175,184	175,184
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**–**	**658,001**	**283,905**	**941,906**	–	429,409	229,549	658,958	9,335	294,812	175,184	479,331
LIABILITIES CARRIED AT FAIR VALUE												
FINANCIAL LIABILITIES												
– Interest rate swaps included in other financial liabilities	**–**	**267**	**–**	**267**	–	1,055	–	1,055	–	2,303	–	2,303
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	**–**	**909**	**–**	**909**	–	320	–	320	–	108	–	108
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	**–**	**1,176**	**–**	**1,176**	–	1,375	–	1,375	–	2,411	–	2,411

There were no transfers between levels 1 and 2 during the year ended 31 December 2017 (2016: none, 2015: none).

42 Fair Value Disclosures continued

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

In thousands of GEL	Fair value at 31 December 2017	2016	2015	Valuation technique	Inputs used
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	**656,234**	428,901	294,208	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	**1,767**	508	604	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**658,001**	429,409	294,812		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
– Interest rate swaps included in other financial liabilities	**267**	1,055	2,303	Swap model using present value calculations	Observable yield curves
– Foreign exchange forwards included in other financial liabilities	**909**	320	108	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**1,176**	1,375	2,411		

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 2017 (2016: none; 2015: none).

For details of the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 15. The unobservable input to which the fair value estimate for premises is most sensitive is price per square metre: the higher the price per square metre, the higher the fair value.

42 Fair Value Disclosures continued

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2017				31 December 2016				31 December 2015			
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	**1,431,477**	**–**	**–**	**1,431,477**	945,180	–	–	945,180	720,347	–	–	720,347
Due from other banks	**–**	**39,643**	**–**	**39,643**	–	24,725	–	24,725	11,042	–	–	11,042
Mandatory cash balances with the NBG	**–**	**1,033,818**	**–**	**1,033,818**	–	990,642	–	990,642	–	471,490	–	471,490
Loans and advances to customers:									–			
– Corporate loans	**–**	**–**	**3,292,352**	**2,425,766**	–	–	2,085,249	1,972,129	–	–	1,504,360	1,392,054
– Consumer loans	**–**	**–**	**2,125,733**	**2,041,887**	–	–	1,877,490	1,798,412	–	–	1,167,551	1,117,574
– Mortgage loans	**–**	**–**	**2,058,468**	**2,052,151**	–	–	1,840,981	1,784,832	–	–	906,240	892,139
– Loans to micro, small and medium enterprises	**–**	**–**	**1,891,528**	**1,805,549**	–	–	1,606,448	1,578,329	–	–	1,054,395	1,043,119
Bonds carried at amortised cost	**–**	**458,950**	**–**	**449,538**	–	377,749	–	372,956	–	350,167	–	372,092
Investments in leases	**–**	**–**	**145,877**	**143,836**	–	–	95,907	95,031	–	–	80,018	75,760
Other financial assets	**–**	**–**	**144,377**	**144,377**	–	–	94,119	94,119	–	–	63,713	63,713
NON-FINANCIAL ASSETS												
Investment properties, at cost	**–**	**–**	**85,012**	**79,232**	–	–	123,852	95,615	–	–	105,972	57,600
TOTAL ASSETS	**1,431,477**	**1,532,411**	**9,743,347**	**11,647,274**	945,180	1,393,116	7,724,046	9,751,970	731,389	821,657	4,882,249	6,216,930
FINANCIAL LIABILITIES												
Due to credit institutions	**–**	**2,626,155**	**–**	**2,620,714**	–	2,197,016	–	2,197,577	–	1,113,666	–	1,113,574
Customer accounts	**–**	**4,992,099**	**2,937,349**	**7,816,817**	–	4,002,659	2,463,392	6,454,949	–	2,372,794	1,812,575	4,177,931
Debt securities in issue	**–**	**20,695**	**–**	**20,695**	–	23,508	–	23,508	–	21,714	–	21,714
Other financial liabilities	**–**	**90,577**	**–**	**90,577**	–	49,623	–	49,623	–	37,024	–	37,024
Subordinated debt	**–**	**425,809**	**–**	**426,788**	–	369,320	–	368,381	–	284,985	–	283,648
TOTAL LIABILITIES	**–**	**8,155,335**	**2,937,349**	**10,975,591**	–	6,642,126	2,463,392	9,094,038	–	3,830,183	1,812,575	5,633,891

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 2017 (2016: none; 2015: none).

43 Presentation of Financial Instruments by Measurement Category

For the measurement purposes, IAS 39, *Financial Instruments: Recognition of Measurement,* classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity; and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2017:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	**1,431,477**	**–**	**–**	**–**	**1,431,477**
Due from other banks	**39,643**	**–**	**–**	**–**	**39,643**
Mandatory cash balances with the National Bank of Georgia	**1,033,818**	**–**	**–**	**–**	**1,033,818**
Loans and advances to customers	**8,325,353**	**–**	**–**	**–**	**8,325,353**
Investment securities available for sale	**–**	**657,938**	**–**	**–**	**657,938**
Bonds carried at amortised cost	**449,538**	**–**	**–**	**–**	**449,538**
Investments in leases	**–**	**–**	**143,836**	**–**	**143,836**
Other financial assets:					
– Other financial receivables	**144,377**	**–**	**–**	**1,767**	**146,144**
TOTAL FINANCIAL ASSETS	**11,424,206**	**657,938**	**143,836**	**1,767**	**12,227,747**
NON-FINANCIAL ASSETS	**–**	**–**	**–**	**–**	**738,163**
TOTAL ASSETS	**–**	**–**	**–**	**–**	**12,965,910**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2016:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	945,180	–	–	–	945,180
Due from other banks	24,725	–	–	–	24,725
Mandatory cash balances with the National Bank of Georgia	990,642	–	–	–	990,642
Loans and advances to customers	7,133,702	–	–	–	7,133,702
Investment securities available for sale	–	430,703	–	–	430,703
Bonds carried at amortised cost	372,956	–	–	–	372,956
Investments in leases	–	–	95,031	–	95,031
Other financial assets:					
- Other financial receivables	94,119	–	–	508	94,627
TOTAL FINANCIAL ASSETS	9,561,324	430,703	95,031	508	10,087,566
NON-FINANCIAL ASSETS	–	–	–	–	681,466
TOTAL ASSETS	–	–	–	–	10,769,032

43 Presentation of Financial Instruments by Measurement Category continued

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2015:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets held for trading	Total
ASSETS					
Cash and cash equivalents	720,347	–	–	–	720,347
Due from other banks	11,042	–	–	–	11,042
Mandatory cash balances with the National Bank of Georgia	471,490	–	–	–	471,490
Loans and advances to customers	4,444,886	–	–	–	4,444,886
Investment securities available for sale	–	307,310	–	–	307,310
Bonds carried at amortised cost	372,092	–	–	–	372,092
Investments in leases	–	–	75,760	–	75,760
Other financial assets:					
– Other financial receivables	63,712	–	–	605	64,317
TOTAL FINANCIAL ASSETS	6,083,569	307,310	75,760	605	6,467,244
NON-FINANCIAL ASSETS	–	–	–	–	467,751
TOTAL ASSETS	–	–	–	–	6,934,995

As of 31 December 2017, 2016 and 2015, 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.

44 Related Party Transactions

Pursuant to IAS 24 "Related Party Disclosures", parties are generally considered to be related if the parties are under common control or one party has the ability to control the other or it can exercise significant influence over the other party in taking financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Parties with more than 10% of ownership stake in the TBCG or with representatives in the Board of Directors are considered as Significant Shareholders. The key management personnel include members of TBCG's Board of Directors, the Management Board of the Bank and their close family members.

Transactions between TBC Bank Group PLC and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the Group Financial Statements.

As of 31 December 2017, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 0.4–36%)	**154**	**7,112**
Impairment provisions for loans and advances to customers	**–**	**11**
Customer accounts (contractual interest rate: 0–11.8 %)	**40,100**	**11,190**
Guarantees	**9,901**	**512**
Provision on guarantees	**30**	**2**

The Group's income and expense items with related parties except from key management compensation for the year 2017 were as follows:

In thousands of GEL	**Significant shareholders**	**Key management personnel**
Interest income – loans and advances to customers	**20**	**444**
Interest income – available securities for sale	**747**	**–**
Interest expense	**928**	**449**
Gains less losses from trading in foreign currencies	**108**	**56**
Foreign exchange translation gains less losses	**(46)**	**(36)**
Fee and commission income	**122**	**94**
Fee and commission expense	**104**	**–**
Administrative and other operating expenses (excluding staff costs)	**58**	**239**
Net loss on derivative financial instruments	**46**	**–**

44 Related Party Transactions continued

The aggregate loan amounts advanced to, and repaid by related parties during 2017 were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	**573**	**3,012**
Amounts repaid by related parties during the year	**(1,293)**	**(3,920)**

During the year 2017, 13 related parties were removed from the insider list. If they had remained in the list, guarantees with related parties as of 31 December 2017 would have been GEL 1,139 thousand higher, net assets with related parties as of 31 December 2017 would have been GEL 214,767 thousand lower.

As of 31 December 2017, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	**Balance as of 31 December 2017**
Gross amount of loans and advances granted to subsidiary	**24,000**
Customer accounts placed in subsidiary	**11,564**
Placement of cash in subsidiary	**57**
Investment in subsidiary	**1,422,462**

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,023 thousand relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2017 were as follows:

In thousands of GEL	**2017**
Interest income	**1,807**
Fee and commission expense	**9**
Dividend income	**90,552**

As of 31 December 2016, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 6.3–20%)		900	7,612
Impairment provisions for loans and advances to customers		2	26
Derivative financial liability	41	1,055	–
Due to credit institutions (contractual interest rate: 5.7–9.7%)		257,403	–
Customer accounts (contractual interest rate: 0–13.5%)		38,982	14,548
Guarantees		28,509	–
Provision on guarantees		192	–

The Group's income and expense items with related parties except from key management compensation for the year 2016 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Interest income		161	399
Interest expense		17,435	503
Gains less losses from trading in foreign currencies		115	18
Foreign exchange translation gains less losses		170	465
Fee and commission income		69	13
Fee and commission expense		580	–
Administrative and other operating expenses (excluding staff costs)		1	155
Net loss on derivative financial instruments	41	206	–

44 Related Party Transactions continued

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
Amounts advanced to related parties during the year	3,713	10,568
Amounts repaid by related parties during the year	(5,994)	(5,722)

As of 31 December 2016, transactions and balances of TBC Bank Group PLC with JSC TBC Bank were as follows:

In thousands of GEL	Balance as of 31 December 2016
Gross amount of loans and advances granted to subsidiary	2,000
Customer accounts placed in subsidiary	2,320
Placement of cash in subsidiary	399
Investment in subsidiary	1,417,043

Included in Investments in subsidiary in Separate Statement of Financial Position GEL 7,023 thousand relates to investment in JSC TBC Insurance.

The income and expense items for TBC Bank Group PLC with JSC TBC Bank except from key management compensation for the year 2016 were as follows:

In thousands of GEL	2016
Interest income	1,149
Interest expense	32
Fee and commission expense	1

As of 31 December 2015, the Group's outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 7.3–20%)		3,179	1,963
Impairment provisions for loans and advances to customers		45	7
Derivative financial liability	41	2,303	–
Due to credit institutions (contractual interest rate: 5.2–11.3%)		63,810	–
Customer accounts (contractual interest rate: 0–7.5%)		8,924	10,253
Subordinated debt (contractual interest rate: –12.6%)		132,530	–

The Group's income and expense items with related parties except from key management compensation for the year 2015 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Interest income		438	139
Interest expense		20,747	537
Gains less losses from trading in foreign currencies		139	40
Foreign exchange translation gains less losses		1,160	28
Fee and commission income		12	16
Fee and commission expense		726	–
Administrative and other operating expenses (excluding staff costs)		48	288
Net loss on derivative financial instruments	41	575	–

44 Related Party Transactions continued

As of 31 December 2015, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	1,684	2,972
Amounts repaid by related parties during the year	(5,486)	(2,492)

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

	2017		2016		2015	
In thousands of GEL	**Expense**	**Accrued liability**	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	**13,339**	**–**	12,323	–	9,939	867
Cash settled bonuses related to share-based compensation	**3,905**	**9,772**	7,336	10,715	4,748	5,254
Equity-settled share-based compensation	**8,469**	**–**	9,923	–	6,864	–
Total	**25,713**	**9,772**	29,582	10,715	21,551	6,121

Included in salaries and bonuses for 2017, GEL 2,326 thousand (2016: GEL 619 thousand) relates to compensation for directors of TBCG paid by TBC Bank Group PLC.

(Endnotes)

[1] A full list of related undertakings and the country of incorporation is set out below.

Company Name	Country of incorporation
JSC TBC Bank	7 Marjanishvili Street, 0102, Tbilisi, Georgia
United Financial Corporation JSC	154 Agmashenebeli Avenue, 0112, Tbilisi, Georgia
TBC Capital LLC	11 Chavchavadze Avenue, 0179, Tbilisi, Georgia
TBC Leasing JSC	8 Bulachauri Street, 0160, 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
Mali LLC	23 Chkheidze Street, 0102, Tbilisi, Georgia
JSC TBC Insurance	24B, Al. Kazbegi Avenue, 0160, Tbilisi, Georgia
UFC International Ltd	HARNEYS FIDUCIARY, Craigmuir Chambers,PO Box 71, Road Town,Tortola VG1110, British Virgin Islands
TBC Capital B.V	202 Oudegracht, 1811, CR Alkmaar Netherlands
TBC Invest International Ltd	7 Marjanishvili Street, 0102, Tbilisi, Georgia
University Development Fund	1 Chavchavadze Avenue, 0128 , Tbilisi, Georgia
Ltd Georgian Mill Company	2 Abashidze street, 0179, Tbilisi Georgia
JSC CreditInfo Georgia	2 Tarkhnishvili street, 0179, Tbilisi, Georgia
LLC Online Tickets	3 Irakli Abashidze street, 0179, Tbilisi, Georgia

SHAREHOLDER INFORMATION

Annual general meeting

The Company's next Annual General Meeting is scheduled for 21 May 2018 in London. The Notice of Annual General Meeting will be circulated to all the shareholders at least 21 working days before the Annual General Meeting and it will also be made available on our website www.tbcbankgroup.com. The voting on the resolutions will be announced via the Regulatory News Service and made available on our IR website www.tbcbankgroup.com.

Reports and communications
We issue regulatory announcements through the Regulatory News Service ("RNS"). Our regulatory announcements are also available at our website www.tbcbankgroup.com in the "regulatory news" section.

Dividends

The Board intends to recommend 25% of the Company's profit for the financial year to be distributed to the Company's shareholders as a dividend, (which represents GEL 1.64 per share), payable in British Pounds Sterling at an official exchange rate of the National Bank of Georgia for 24 May 2018. If approved, the final dividend will be paid on 22 June 2018 to shareholders on the Register of Members at the close of business in the UK (ie 6pm London time) on 18 May 2018.

Ex-dividend date: 17 May 2018
Record date: 18 May 2018
Currency conversion date: 24 May 2018
Payment date: 22 June 2018

Share price information

Our latest and historical share prices are available through our website www.tbcbankgroup.com.

Shareholder inquires

TBC Bank Group's share register is maintained by Equiniti.
If you have any questions about your TBC Bank Group's shares, please contact Equiniti.

Shareholder helpline

UK callers: 0371 384 2030
International callers: +44 121 415 7047

Aspect House
Spencer Road
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Our registered address

TBC Bank Group PLC
6 St. Andrews Street
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Website

Our annual report, financial results and investor presentations, as well as other significant information are available through our website: www.tbcbankgroup.com.

GLOSSARY

Bank	Joint Stock Company TBC Bank
Bankassurance	An arrangement in which a bank and an insurance company form a partnership, so that the insurance company can sell its products to the bank's client base
Bank Constanta	Joint Stock Company Bank Constanta
Bank Republic	Joint Stock Company Bank Republic
Board	Board of Directors of TBC Bank Group PLC
Chairman	Chairman of Board of Directors of the Company
Chief Executive Officer (or CEO)	Chief Executive Officer of TBC Bank Group PLC
Chief Financial Officer (or CFO)	Chief Financial Officer of TBC Bank Group PLC
Code	The UK Corporate Governance Code
Company	TBC Bank Group PLC
Corporate segment	Legal entities with an annual revenue of GEL 8.0 million or more or who have been granted a loan in an amount equivalent to US$ 1.5 million or more. Some other business customers may also be assigned to this segment or transferred to the MSME segment on a discretionary basis. Business customers are legal entities, who have been granted a loan for a business purpose
Corporate Centre	Comprise the treasury, other support and back office functions, and non-banking subsidiaries of the Group
Deputy Chairman	Deputy chairman of Board of Directors of the Company
Director(s)	Members of the Board of TBC Bank Group PLC
Group	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
Internet banking penetration ratio	Number of active internet banking users divided by total number of active retail customers
Management Board	Management Board of Joint Stock Company TBC Bank
Mobile banking penetration ratio	Number of active mobile banking users divided by total number of active retail clients
Offloading ratio	Number of transactions conducted in remote channels divided by total number of transactions, based on JSC TBC Bank standalone data
MSME (Micro, Small and Medium) segment	All business customers who are not included in either Corporate and Retail segments; or legal entities who have been granted a pawn shop loan. Business customers are legal entities, who have been granted a loan for a business purpose
Product per customer ratio	Number of active products divided by number of active customers
Retail segment	All non-business individual customers or individual business customers who have been granted a loan in an amount equivalent below US$ 8.0 thousand. All individual customers are included in retail deposits. Business customers are individuals, who have been granted a loan for a business purpose
Supervisory Board	Supervisory Board of Joint Stock Company TBC Bank
TBC Bank	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank) and its subsidiaries
TBC Status clients	Clients with minimum monthly income of GEL 3,000 or a loan of GEL 30,000 or more, or deposit of GEL 30,000 or more
TBC Bank Group PLC	The UK-incorporated parent company of Joint Stock Company TBC Bank (the Bank)
TBCG	TBC Bank Group PLC (except for Remuneration Report, where it means TBC Bank Group PLC and JSC TBC Bank together)
TBC Insurance	Joint Stock Company TBC Insurance, formerly Joint Stock Company Insurance Company Kopenbur
TBC JSC	Joint Stock Company TBC Bank
TBC PLC	TBC Bank Group PLC
VIP	Clients with a minimum deposit of US$ 100,000 as well as on a discretionary basis
Wealth management for non-resident clients	Non-resident clients with a minimum deposit of US$ 100,000 as well as on a discretionary basis

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AFS	Available for sale
ALCO	Asset-liability management committee
ATM	Automated teller machine
BNY	Bank of New York
CAGR	Compounded annual growth rate
CAR	Capital adequacy ratio
CEE	Central and Eastern Europe
CEO	Chief executive officer
CIS	The Commonwealth of Independent States
CFA	Chartered Financial Analyst
CFO	Chief financial officer
CGU	Cash generating unit
CSAT	Customer satisfaction
CIB	Corporate investment banking
CoR	Cost of risk
CRM	Customer relationship management
CRO	Chief risk officer
CSR	Corporate social responsibility
CVP	Cost volume profit
DCF	Discounted cash flows
ECL	Expected credit losses
EECG	Energy Efficiency Centre Georgia
EMEA	Europe, Middle East and Africa
ENPS	Employee Net Promoter Score
EPS	Earnings per share
ERM	Enterprise risk management
ESRM	Environmental and social risk management
EU	European Union
EUR	Euro
FDI	Foreign direct investment
FTSE	Financial Times Stock Exchange
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GBP	Great British pound, national currency of the UK
GDP	Gross domestic product
GDR	Global depositary receipt
GEL	Georgian lari, national currency of Georgia
GHG	Greenhouse gas
HR	Human resources
HNWI	High-net-worth individuals
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDR	Issuer default rating
IFI	International financial institution
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPO	Initial public offering
IT	Information technology
JSC	Joint stock company
KPI	Key performance indicators
LED	Light-emitting diode
LSE	London Stock Exchange
MBA	Master of Business Administration
MBO	Management-by-objectives
MSME	Micro, small and medium-sized enterprises
NBG	National Bank of Georgia
NCI	Non-controlling interest
NIM	Net interest margin
NPL	Non-performing loans
NPS	Net promoter score
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
PLC	Public limited company
POS	Point of sale
PPP	Purchasing power parity
PWC	PricewaterhouseCoopers
ROA	Return on average assets
ROE	Return on average equity
SME	Small and medium-sized enterprises
SPPI	Solely payments of principal and interest
STEM	Science, technology, engineering and mathematics
UK	United Kingdom of Great Britain and Northern Ireland
USD	The US dollar, national currency of the United States
VIP	Very important person
VAR	Value-at-risk
WB	World Bank
WRI	World Resources Institute

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